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27 August 2015

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PLAYING THE PROPERTY GAME

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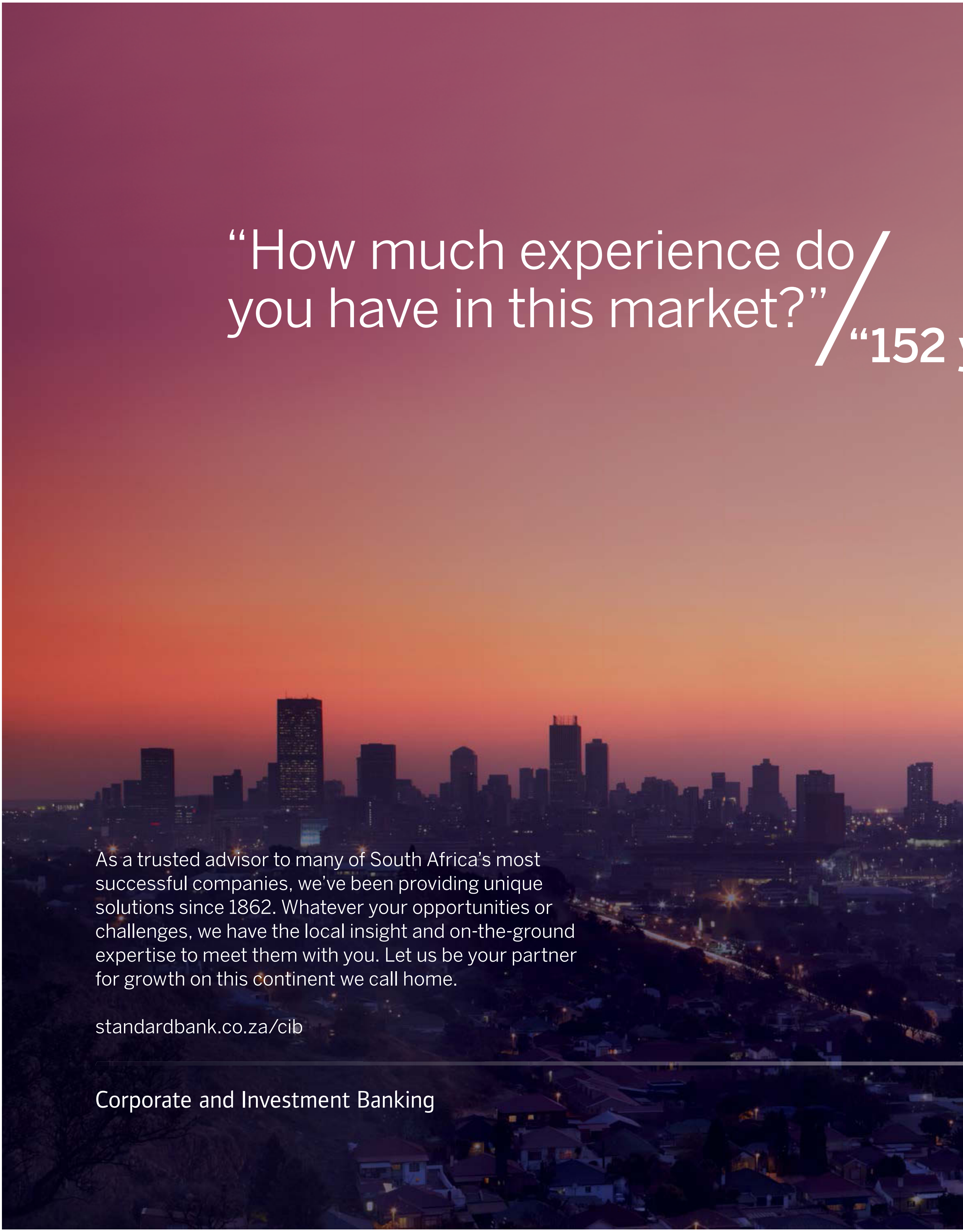
LESSONS FROM A TOP SECURITY EXPERT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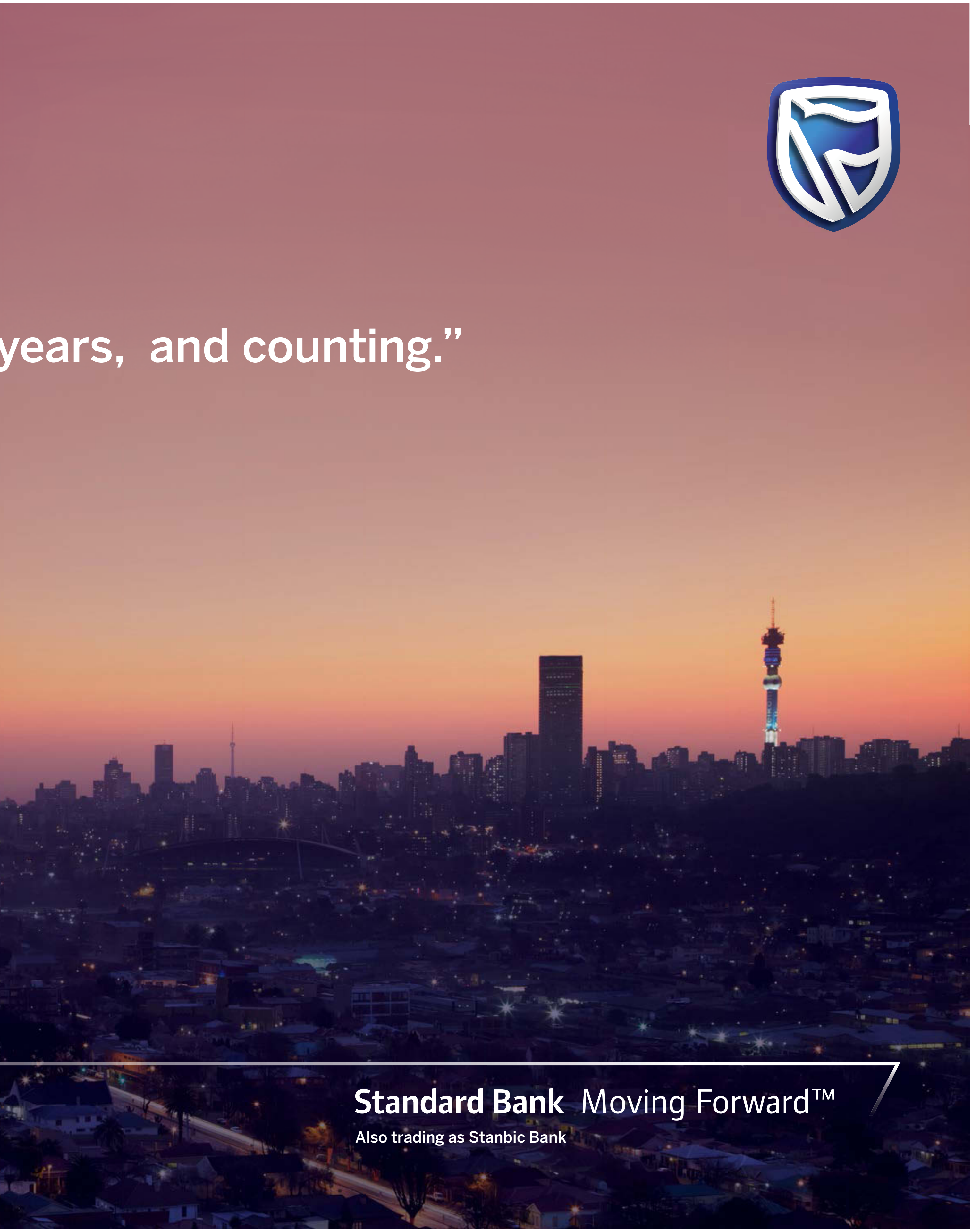
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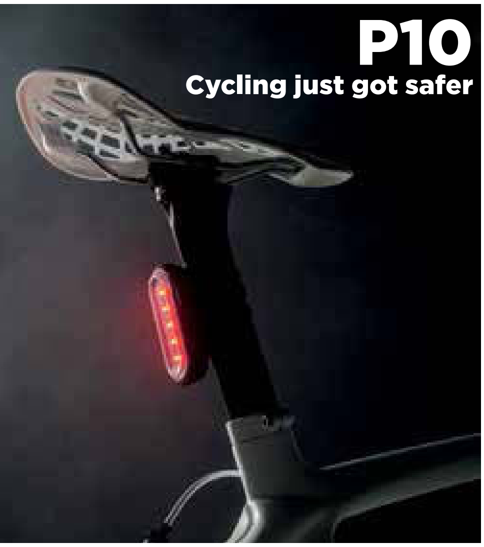
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LESSONS FROM A WINNING INNOVATOR

FINWEEK DEPUTY EDITOR **ANNELI GROENEWALD** WRITES:

Digital technologies are here to stay – that message isn't new – and they are already disrupting ways South Africans do business – a lesson the transport industry learnt with the introduction of Uber.

Every industry has its own examples. From my own experience, it often feels like the local media industry is simply trying to deal with all the digital platforms being thrown at it – a case of just adapting copy written for print to fit digital devices.

I believe the same happens in many other sectors. Websites are created, shopping baskets added to those websites, and developers are paid my monthly salary per hour to develop an app overnight – all to deal with the advance of digital technologies.

But while many of us, like the media industry, are all playing catch-up, others are coming up with new, innovative ideas. And monetising these ideas.

So how do you get ahead of the game? GreatSoft CEO, Bruce Morgan (see story on page 42), shares his philosophy with *Finweek*. And considering that GreatSoft – which provides integrated cloud-based management solutions to accounting firms – recently won the FNB Business Innovation Award, it might be worth heeding Morgan's advice.

Every month each of his team's developers spends two days working on something that does not fall within their job description. They do this to stimulate the flow of creative juices, he says, and it has already resulted in advantages for the company's client base.

While many bosses around the globe would be able to see the benefit in such a system, an equal number would shrug it off as they cannot afford to have their highly-skilled employees wasting time dabbling with less important matters.

Morgan would probably say that companies cannot afford not to.

Those willing to invest in new ideas are likely to be the ones who'll be on the money. ■

Double take

finweek

LETTER FROM NIGERIA

Putting **'Africa rising'** under the microscope

We all hear so much about the 'Africa rising' narrative and the growing middle class of countries like Nigeria that have fast-increasing and young populations. They like stuff! They need stuff! Invest in the stuff they want to buy and make millions! The growing middle class will drive higher consumption of everything from pet food to white goods, so the story goes.

Up to a point, it's true: if you're the owner of a stake in a company that has a fried chicken franchise in Lagos, I am sure you won't argue too much. And from the queues this week at the counter of Abuja's new and only Domino's Pizza on its first day of trading, any travelling business person would have had reason to go back to London or New York confident that 'Africa rising' is definitely happening and the middle class is absolutely growing.

But Africa rising demands constant interrogation. Firstly, it's never as simple as 'people + things = a return on your investment', yet that's so often the case made by the peddlers of the thesis. Just ask Nestlé. One of its senior executives told the *Financial Times* in June that the company was cutting its workforce in 21 African countries because it had overestimated the growth of the middle class.

Secondly, focusing on what people are using and buying (in Nigeria's case largely from outside its borders) can overshadow what they are themselves working on in between using their washing machines or having dinner at Domino's.

I have spent some time recently researching tech and social enterprise entrepreneurs, mainly those based in Lagos's Yaba district, which is fast becoming the megacity's more modest but equally ambitious answer to Silicon Valley. Granted that it doesn't look like much at the moment and it faces daily challenges that would drive any San Franciscan mad, but this is where it's at in terms of exciting, innovative investment in Nigeria.

Here you'll find young people building apps that do everything from promoting ride-sharing to encouraging the celebration of Nigeria's rich culture. Then there's BudgIT, which is helping Nigerians understand how their money is spent by the government; no one would argue that's a service that wasn't needed.

Investment in start-ups like these may need more attention and care from the investor than if you just chucked a bundle of cash at an industry sector you reckon Nigerians might like, but it's also a more interesting way to invest. It's one that benefits not just you and fried chicken demand, but also Nigerians in parts of society other than the much-vaunted middle class. A scheme that promotes rubbish collection – see Wecyclers for details – is a scheme that benefits the health and hygiene of Lagosians as much as it benefits stakeholders.

So yes, Africa is rising and yes, Nigerians do seem to like pizza, but ask yourself whether that's really the best, the brightest and the most beneficial way you could be investing in the trend. Perhaps instead of what Nigeria consumes, it's time more of us started looking at what young people in Nigeria are working so hard to produce. ■

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Gallo Images/ Anadolu Agency/ Mohammed Elshamy

Nigerians are seen at the 'Computer Village', the bazaar where electronic products such as mobile phones, computer hardware and accessories are sold, in the Ikeja suburb of Lagos, Nigeria earlier this year. This 'Computer village', which is one of Africa's biggest computer markets, attracts locals and foreign tourists from as far afield as Ghana, Senegal and the Congo.

In Brief

CHINESE SLUMP

6.2%

A single-day slump of 6.2% in the Shanghai Composite Index on 18 August followed by another drop of 5.1% the next day (according to Bloomberg data) sent fears through global markets. While the index recovered again to gain 1.2%, analysts told Bloomberg that weak sentiment would result in markets remaining unstable. It reported that investors in mainland China realised that the bull market was over, and that the country's richest traders were "cashing out of stocks". Meanwhile Reuters reported that other Asian markets saw two-year lows following the drop. Investors warned that emerging market currencies could expect capital outflows going forward as they faced a combination of slower growth in the Chinese economy and interest rate hikes in the US.

GLENCORE'S EARNINGS DROP

29%

Reporting its first-half results, Glencore announced a 29% drop in its earnings for the period, as it was hit by a plunge in commodity prices. According to Reuters, Glencore relies on commodities trading for a quarter of its earnings, and copper, for example, was at a six-year low, it said. Platinum, meanwhile, currently trades in the region of $995 per ounce, compared with the $1 440 region a year ago.

Zimbabwe lost 20 000 jobs in one month, following its recent Supreme Court ruling that companies in the country can fire workers by giving them three months' notice.

The Zimbabwean government is now considering amendments to its labour laws – including forcing employers to pay severance packages and introducing tougher conditions for future dismissals – to curb further job losses, Fin24.com reported.

ZIM'S JOB LOSSES

20 000

Christopher Scott via Getty Images

INDIA BUYS PLANES

$26.6BN

India's biggest airline, IndiGo, has ordered 250 Airbus planes at a total cost of $26.6bn, according to Bloomberg. This is the European plane maker's biggest aircraft order to date. Bloomberg indicated that both Airbus and Boeing forecast that Asia will become their biggest market within the next two decades, a position currently held by the US.

Dhiraj Singh/Bloomberg via Getty Images

THE GOOD

Amidst higher interest rates, looming strikes and our national sports teams generally faring meekly against lesser ranked teams, expectations of a possible fuel price reduction is likely to sit well with consumers. Following on an 51c drop in the petrol price at the beginning of August, the Automobile Association said it expected a further decline of between 55c and 64c in the petrol price for September. This was on the back of a continued decrease in the oil price.

THE BAD

While nobody wants to hear about Nkandla anymore, we need to stop for a moment and reflect on how long it took the powers that be to recognise public protector Adv. Thuli Madonsela's report on the debacle (many still don't recognise it), yet how quickly police minister Nathi Nhleko's report on the matter was approved in Parliament – the latter claiming that luxury upgrades such as the fire pool at President Jacob Zuma's private residence were vital security measures.

Nathi Nhleko
Minister of Police

Gallo Images / Nardus Engelbrecht

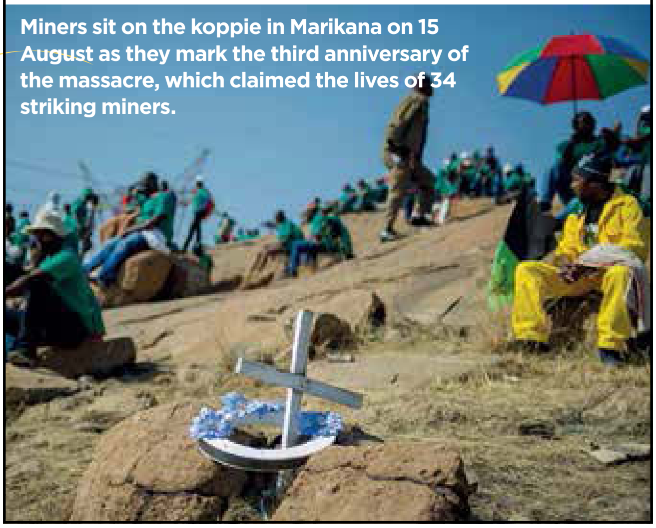
THE UGLY

Rand Water claimed that taps in Johannesburg would not run dry should its employees belonging to the Municipal Workers' Union of South Africa act on their threat to strike. At the time of going to print, it was reported that Rand Water would apply for an interdict against such a strike. While only time will tell whether Johannesburg will indeed run out of water, we already know one thing: continued strikes in the public sector will cost the SA economy.

MARIKANA CLAIM

R1BN

Three years after the Marikana massacre, the families of arrested and injured mineworkers were lodging a claim amounting to R1bn against the National Union of Mineworkers, Lonmin and the police minister, iol.com reported. Claims were made for 336 individuals.



Miners sit on the koppie in Marikana on 15 August as they mark the third anniversary of the massacre, which claimed the lives of 34 striking miners.

MUJAHID SAFODIEN/AFP

Zwelinzima Vavi
Former general-secretary of Cosatu

"I fully agree that people must be employed strictly on merit and not based on political connections. But I cannot support asking the whole public service and SOE workers to reapply as a way of dealing with the problem. In fact, I believe most of the problems are not created by workers – who themselves do not have power to employ – but by senior officials who don't have skills, but rely on political connections."

– Former Cosatu general-secretary Zwelinzima Vavi in an interview with News24, in which he also said that economist Dawie Roodt was a hero after he wrote an open letter to all South Africans on why he will not emigrate.

3 of SA's **freshest apps**

BY SHANDUKANI MULAUDZI

Every year, MTN holds the App of the Year awards where the most innovative apps in the country are recognised. We selected three you may not have heard of:

1 WumDrop

Appstores: iOS and Android (free)
Web: wumdrop.com

This year's overall winner WumDrop is a new player in the courier sector. Operating in Cape Town and Johannesburg, WumDrop charges all users R12 per kilometre with a minimum charge of R50. All you do is type in your pick-up and drop-off locations. The app will then calculate the cost for you. Senders and receivers can track the delivery in real time.

2 Vula Mobile

Appstores: iOS and Android
Web: vulamobile.com

Vula Mobile offers a platform that allows health professionals and medical specialists to communicate with one another. Before a patient is transferred, the specialist can use the app to review images, patient information and other circumstances surrounding the patient's condition as provided by the referring healthcare official. Doctors will therefore be able to prioritise patients before they arrive at the hospital.

3 CPUT Mobile App

Appstores: iOS, Android, BlackBerry, Windows
Web: cput.ac.za/mobile

The Cape Town University of Technology knows what students need. Its app allows students to access their account and course information as well as course documents. This is the perfect solution for students who may not have access to computers at home. Prospective students can also use the app to track the status of their applications. ■

Cycling just got safer

BY LAMEEZ OMARJEE

Forty percent of cycling injuries occur when vehicles hit cyclists from behind. Unlike runners, cyclists travel along with traffic and are not always aware of vehicles approaching from the rear. For this reason, Stellenbosch-based software company iKubu designed the Varia Rear-view Bike Radar and Varia Smart Bike Lights.

iKubu was acquired by Garmin at the beginning of the year, and the tech giant will be launching these devices soon.

The Rear-view Bike Radar is a red tail light mounted onto the back of a bicycle and detects approaching vehicles from 140m away, explains Marc Bainbridge, fitness category manager at Garmin Southern Africa. It is used in conjunction with a radar display or head unit. The light flashes intensely and more brightly as a vehicle approaches and shows up to eight approaching vehicles on the radar display.

The radar, which took three years to develop from initial concept to final product, can be used independently or with a range of Garmin's compatible Edge cycling computers. It will display approaching vehicles (as a dot) on the side of the screen, which will move up the screen as a vehicle approaches the cyclist, explains Bainbridge. Alternatively the cyclist can use a head unit with a flashing light – the light flashes green when there is no danger and as soon as a vehicle is detected, the light flashes orange. When there is a greater risk, or a fast-approaching vehicle, the light flashes red.

The Varia Smart Bike Lights also contribute to safe cycling. Used in conjunction with Edge products, a tail light will illuminate when the cyclist brakes, much like a vehicle's brake lights would. This is particularly useful when cyclists ride together as a group, warning them to slow down if the cyclist ahead of them brakes, Bainbridge says. By adding a second tail light, cyclists are able to use the lights as indicators for signalling left and right turns.

There is also an option for a headlight that projects over a greater distance for cyclists travelling at faster speeds. When the cyclist slows down, then less of the path is illuminated to see obstacles closer to them. ■

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Shoprite delivers solid results

BY SHOKS MZOLO

Whitey Basson
CEO of Shoprite

Despite the group producing what the market interpreted as good results for the full year to end June 2015 on 18 August, shares in Shoprite took a knock in intraday trade before turning around to end on a high note.

Part of the problem is that the stock – markedly off its all-time high, and lagging industry peers – has been "inherently expensive for a long time", says Vestact portfolio manager Byron Lotter.

On 4 August, Shoprite was the best performer on the bourse after vaulting a hefty 4.2%, with Woolworths collecting 3.3% on the day. But, while the Shoprite stock flirted with R190 earlier this year, it's since pulled back to R160. That, in turn, puts its market cap at R92bn, three times that of Pick n Pay. Although Shoprite's price-to-earnings ratio sits at 20, Lotter feels the current level offers an opportunity to punters keen on Shoprite, whose growth prospects, he adds, remain positive.

"They have produced a solid set of results," he says.

The supermarket chain had bemoaned load-shedding and an economic slowdown in South Africa and beyond, he adds. However, despite what CEO Whitey Basson terms "trying market conditions", Shoprite saw an 11.2% surge in sales, to R113.7bn, and a tiny rise in market share for the ninth year in a row. This illustrates that the food retail titan is still on an upward trajectory, says Cratos Wealth portfolio manager Ron Klipin.

Headline earnings per share came in at 772.9c, or 10.8% higher, following a 10.5% surge in net profit to R4.1bn.

Shoprite's footprint currently spans 15 countries, with only three of these outside Southern Africa. With more than 2 100 of its almost 2 500 outlets in SA, revenues are concentrated in the country.

Klipin warns against moving into Africa too quickly, noting, "Massmart's expansion into Africa hasn't been without challenges."

While Lotter shares this sentiment, he singles out Shoprite's move to open a net 34 stores outside SA as a step in the right direction. Despite currency devaluation in three countries, including the populous Nigeria, the non-SA segment continued to outperform the local business.

Regarding diversification of revenue streams, Klipin notes that Basson's team should put more focus on the furniture division, whose 471 stores, overwhelmingly in SA, grew turnover by 13%. This was helped along by setting up in some of the spots that were previously occupied by the now-defunct Ellerines. If Shoprite is to maintain its good – albeit softening – momentum, a winning formula to diversify will have to become a top priority now. ■

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1M

During August, South Africa officially reached the 1m benchmark in **websites with the co.za** domain name, Fin24.com reported. The ZA Central Registry (ZACR), which manages the co.za, web.za, org.za, net.za, .capetown, .joburg and .durban domain names announced the milestone via Twitter. According to the announcement, there are now over 1 000 050 active co.za domains.

5%

The Consumer Price Index (CPI) inflation rate accelerated to 5% in July, according to Stats SA, compared with 4.7% in June. Stats SA highlighted an increase of 9.8% in water and other services, and an 11.2% increase in electricity and other fuels as the main reasons behind a month-on-month increase of 3.1% to July in the housing and utilities index. The transport index increased by 1% over the same period. The Reserve Bank expects inflation to exceed its band target of 3% to 6% during the first half of 2016.

Tired of fighting

Greek finance minister Euclid Tsakalotos yawns mockingly as deputies attempt to disrupt his speech during a night parliamentary session in Athens, Greece, on 14 August. During this session, the country's parliament finally approved its bailout agreement. Five days later, on 19 August, a large majority of German MPs voted in favour of approving a third bailout deal for Greece. A total of 453 members of parliament voted in favour of the €86bn (R970bn) package, while 113 rejected the bailout and 18 abstained. BBC.com quoted Germany's finance minister, Wolfgang Schäuble, known to be a critic of the Greek government, as having told the German parliament that it would be "irresponsible" not to grant Greece another opportunity.

Reuters/Christian Hartmann

IS PROPERTY STILL A SAFE HAVEN

BY LIESL PEYPER

MANY INVESTORS THINK PROPERTY IS AS SAFE AS HOUSES. BUT THE TRUTH IS THIS SECTOR, LIKE ANY OTHER, IS NOT IMMUNE TO ECONOMIC SETBACKS AND MARKET MOVEMENTS. WE TAKE A LOOK AT WHAT IS IN STORE FOR THE SOUTH AFRICAN PROPERTY MARKET OVER THE COMING MONTHS.

In 2006 the housing bubble in the United States burst and the subsequent collapse in property prices sparked a worldwide recession. Yet, the South African property market was not as vulnerable to price declines as the rest of the world where real house prices had lost up to 50% of their original value.

One of the reasons for South Africa's higher real property prices compared to the rest of the world can be ascribed to extreme stimuli across the world, says FNB property economist John Loos. "There were big interest rate cuts in South Africa and in the US where they also had a huge fiscal stimulus. So we've had a situation of very high real prices by our historic standards, which were kept up by abnormally low interest rates and fiscal deficits."

RESIDENTIAL PROPERTY

Loos believes growth and activity in the residential market will start to slow by some measure. "House price growth is slower than it was compared to the beginning of last year. I anticipate this slowing growth to continue to get to a situation where we have low single-digit house price inflation that will be below CPI inflation," says Loos.

"We'll see a gradual real house price correction – in other words, a reduction in real house prices. The stimuli have to be withdrawn at some point as we can't just keep ratcheting up the government debt and have this massive current account deficit and rely on foreign capital. We've got to become a country that lives more within our means. I think the South African Reserve Bank knows that and they're hiking rates gradually and so the gradual correction of real house prices now has to set in once again," he explains.

According to Seeff Properties chairman, Samuel Seeff, the property market has slowed by about 10% so far this year, largely due to the economic setback and interest rate hikes. "But we are still seeing a fairly balanced market, packed with eager buyers who are still competing among a tight pool of properties, especially in high-demand urban areas," Seeff says. He maintains that 2015 will still be a good year for property in general, despite the renewed economic challenges, the electricity crisis and a higher interest rate environment. "Remember, there's always activity in the property market, regardless of the economy, as people need to buy houses and move for various reasons."

Property economist François Viruly is of the view that the property market has been "bobbing along" and become increasingly sensitive to interest rate fluctuations. "This is particularly true for the more affordable section of the housing market. As long as household balance sheets remain weak the property market will be sensitive to monetary and macroeconomic conditions. I am confident though that in both the commercial and residential property markets we are moving up the property cycle."

Keillen Ndlovu
Head of Listed Property Funds at Stanlib

COMMERCIAL AND LISTED PROPERTY

Investors in listed property have ample reason to smile as the sector has delivered between 20% and 25% annualised returns over the past 10 years. "But investors should definitely moderate their expectations," says Keillen Ndlovu, head of Listed Property Funds at Stanlib. "Yes, it's been an interesting sector that has delivered very good returns, but things are starting to slow down in the retail, office and industrial markets."

FNB's Loos also suspects the "listed property party is over".

"You can't carry on running so hard. If you look at commercial property itself I would expect this year's returns to be lower, because economic growth has been slowing. The reality is, as a country we're not going places. We don't have economic policies that are focused on growth. There has already been a slight decline in total returns on commercial property last year and

CAPE TOWN – DEFYING GRAVITY?

The residential property market in the Cape Peninsula has been exceptionally strong, thanks to a different set of economic fundamentals. But FNB property economist John Loos doesn't believe the area will necessarily be immune to the imminent lower growth in house prices.

"The Cape has performed relatively stronger in recent years where we've seen higher house price inflation than in the rest of the country, but it has been slowing just like the rest. Its price levels will probably be permanently higher than the rest of the country because of the shortage of land – it's got sea on two sides then the mountain in the middle," he explains.

Gauteng, although it has a higher per capita income than the Western Cape, is landlocked and there's not such a scarcity of land, explains Loos. "Theoretically Gauteng should have had higher prices, but not, because it's landlocked.

"Another factor that makes Cape Town unique is the chronic traffic congestion," says Loos, "so there's a huge demand to reside in the City Bowl and there's an absolute shortage of buildings and land to develop on."

He believes prices on the Western Seaboard and the City Bowl should always remain slightly higher than in the rest of South Africa. "But does it defy gravity? I don't think so. Cape Town won't get away from the decline in the national house price trend."

Samuel Seeff, chairman of Seeff

it is going to filter through to the listed sector in some form or another."

Viruly, on the other hand, believes opportunities remain in the listed property market, although the sector may seem expensive currently. "Some funds are presently trading with a significant premium over net asset value [NAV], while real estate investment trusts [REITs] show a lesser premium. In other words, stock-picking has become important in the listed property market, while it's important to keep an eye on the fundamentals."

NEW FRONTIERS

Although the listed and commercial property sector may not deliver the same high yields as in the past, there are a number of good investment opportunities.

Stanlib's Ndlovu says companies are moving into the offshore market to look for better opportunities. "This has become a theme. Offshore prospects are across all sectors. In Australia, for example, investments are mostly in the office and industrial space, while Europe offers opportunities from industrial, retail and hotels to residential and offices."

Loos, however, is less optimistic about commercial and listed property.

"The office space has been the weak one of the three categories and retail has suffered because of lower growth in consumer spending."

The retail property sector, he says, is negatively affected by electricity costs and growth in the industrial property market has been stymied due to the recession in the manufacturing sector. "I'm not sure there's too much to choose between retail, commercial and manufacturing. They're all going to be affected in some form or another by the weaker economy."

DARK CLOUDS ON THE PROPERTY HORIZON

Economists are in consensus that the Reserve Bank will gradually hike interest rates over the coming quarters.

Loos expects the prime rate to be at 10.5% by the end of 2016, which will lead to lower house price inflation, but not necessarily lower asking prices for sellers. "What we see from our estate agent surveys is that about 80% of sellers start off high and get bargained down. I don't think asking prices are likely to drop easily."

Seeff is also of the view that South Africans are in for at least another 100 basis point interest rate hike. "This will take the mortgage rate to 10.5%, but the hike is likely to be in the form of 25 to 50 basis point increments over the coming quarters."

A higher interest rate environment generally affects the property market, says Seeff. "At least initially, but then things settle down again. We are already seeing a slowdown in the market and further rate hikes are likely to further dampen demand. Having said that, the market is still in a healthier position compared to three to five years ago and we expect it to remain well-balanced at least for the remainder of this year."

According to Viruly, the upper end of the property market is generally less sensitive to interest rate hikes, but it has a significant effect on the affordable component of the market. "Higher interest rates therefore have a 'patchy' performance in the residential market." »

A WORD OF ADVICE

Investors think the ideal time to invest is when property is performing well, but that is not always the case, says FNB property economist John Loos. "If something is overpriced, property in this instance, it's not a good investment. Theoretically we should buy during weak times and sell on the highs, but many less seasoned investors don't really follow that route. They buy on the highs when things are hot."

Properties, says the Western Cape property market has been the strong performer nationally, driven by strong local demand as well as an influx of buyers from other provinces, who purchase property as second or holiday homes.

"There are also a number of buyers who are relocating to the province for a variety of reasons. Additionally, the Cape has a strong leisure market that attracts buyers from across the globe, especially from Britain and Northern Europe, plus a growing number of African property investors. All of these factors contribute to the strong property market that prevails in the Cape."

Having said that, Johannesburg and Pretoria are also performing very well, says Seeff. "Pretoria, for example, is experiencing a strong demand from government employees while Sandton in the Johannesburg area is a strong growth market – it is now being regarded as the financial core of the continent," Seeff says.

Samuel Seeff
Chairman of Seeff Properties

BUY TO LET?

In higher interest rate environments investors often wonder if it's still wise to consider buying property to rent. Viruly argues property remains a good investment proposition going forward. "As long as potential investors have the financial flexibility to deal with higher interest rates," he says. "Interest rates do sometimes push households towards renting property, which increases the demand in the rental market. Similarly, renting is sometimes the only way in which households can find the living space they need."

"STOCK-PICKING HAS BECOME IMPORTANT IN THE LISTED PROPERTY MARKET, WHILE IT'S IMPORTANT TO KEEP AN EYE ON THE FUNDAMENTALS."

Loos is cautious about the buying-to-let market. "Nothing's a safe bet. Buying to let has other issues, like tenants. Prospective investors should consider the yields, although the buying-to-let opportunities may become better in the next few years."

He believes the real prices of houses will decline slightly and yields on residential property will increase. "But I don't think now is the most attractive time. It will become more attractive as the real price correction takes place."

The interest rate hikes will no doubt further boost the already buoyant demand for rental property in the major metropolitan areas, says Seeff, which in turn will create a shortage of rental accommodation and open up opportunities for buy-to-let investors.

"This, however, does not mean that every man should start investing in the rental market as it comes with its own set of challenges, not least of which the fact that rental yields and returns remain under pressure and it is not a means to earn top rental returns," he cautions. "Novice investors, especially, should investigate their options and review their motives very carefully. If they're looking to expand their property portfolios and want to add property to their assets, but are willing to hold onto it for a longer period, then yes, it could be a good investment. If they are looking to make good profits over the short term, then a property fund would be a better option."

He advises investors to do their homework and ensure they invest where the demand is the highest. "Weigh up the returns that you're likely to get against the investment that you're going to make to buy the property." ■

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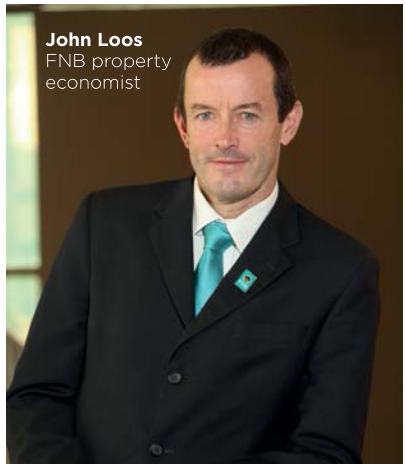
John Loos
FNB property economist

EXPROPRIATION CONCERNS

The Property Valuation Act of 2014 came into effect as from the beginning of August this year. Among other things, the Act will allow for the establishment of a valuer-general who will be – among other things – responsible for valuing properties earmarked for expropriation. This, together with comments by President Jacob Zuma in his State of the Nation Address about a prohibition on foreign ownership of land, has raised concern among prospective property investors.

Property analysts and economists are hesitant to comment on whether these concerns are justified. But FNB property economist John Loos says he's not convinced that it will apply to residential property owners. "It probably has more to do with farm owners and I don't sense normal residential owners have too much to be concerned about."

This view is echoed by François Viruly, also a property economist. "I'm not an expert on the matter, but I don't believe that it will have a material impact on the urban property market. It primarily has to do with the manner in which we expedite our land reform and land restitution policies."

BOND REPAYMENTS WHEN INTEREST RATES RISE

On a bond of **R1m** a homeowner's mortgage repayments will rise as follows when interest rates increase by **0.25%** over the next four quarters:

@ 9.5%	@ 9.75%	@ 10%	@ 10.5%
R9 321	R9 485	R9 650	R9 816

Property: The next big thing

BY GLENDA WILLIAMS

"Direct commercial property will make a comeback." This is according to independent investment consultant Dries du Toit, who was speaking at the 13th IPD SA Property Investment Conference, held in Cape Town in mid-August.

It's a prediction that many will heed. In the past 15 years Du Toit has rung three bells. In 2003 he predicted that listed property would become the best asset class. Exactly as he predicted, listed property outperformed all other asset classes delivering returns in excess of 20%. Five years on, he predicted a US housing market bubble and in 2011 he advocated diversifying overseas when the dollar was a 'mere' 6.50 to the rand.


As SA's financial and business centre, Sandton has seen an explosion in commercial development.

The direct property boom of the 1980s and 1990s was dealt a blow by high interest rates, lack of liquidity, inner city decay and listed property cap rates rising to between 18% and 20%. Predictably, listed property became a far more attractive investment.

But future listed property returns are likely to be substantially lower, around 9% according to Du Toit. The rerating of listed property is not the only reason he believes direct (unlisted) property and specifically direct commercial property will be the best performing asset class over the next five years. Direct commercial property, he says, outperformed bonds and cash, produced equity-like returns in addition to being less volatile than equities.

Direct property, says Du Toit, is cheaper than listed property, is an above-average risk-adjusted long-term investment that is not only attractive for listed properties in terms of takeovers, but is also sought after by pension funds, life officers and reserve funds.

DIRECT COMMERCIAL PROPERTY OUTPERFORMED BONDS AND CASH, PRODUCED EQUITY-LIKE RETURNS IN ADDITION TO BEING LESS VOLATILE THAN EQUITIES.

Backing up his conviction that direct commercial property will be the next Cinderella asset class to demonstrate the best value per unit of risk, Du Toit says distribution growth is expected to match inflation, the valuation discount rate is in excess of 10% per annum, volatility is low and the exit cap rates are just below single digits. Total returns, he believes, will exceed 10% and could even yield 14% at a low level of risk. If European trends are anything to go by, this could be Du Toit's fourth bell.

In Europe, significant investment into the commercial real estate investment market has produced the strongest first half for eight years with €135.3bn (R1.9tr) of investment activity. Driven by record transaction levels of investment in London as well as strong levels in the Nordic regions, Iberian Peninsula and in Italy, the asset class has experienced a 37% growth in investment compared with the same period last year according to Real Capital Analytics (RCA). ■

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Global **real estate** trends

BY GLENDA WILLIAMS

After five strong years of growth globally, direct property delivered stellar results in 2014 albeit with marked variations across countries.

Showing vigorous recovery after the global financial crisis, Ireland delivered returns of 40%, reports research and analytics company MSCI. The UK and US had returns of 17.9% and 11.5% respectively, while South Africa also produced a return higher than the global index average of 9.9%.

Core real estate attracts loads of capital, explains Jill Compton, vice-president of MSCI, and after the crisis the flight was to the safety of core markets like London. While volatility remains a challenge for asset allocators, value-add and opportunistic markets are beginning to feature more. For investors, there is risk reduction through country diversification with strategic allocation, looking at market size and maturity, risk and return. Hence the importance of indexes to identify which markets are growing or peaking, which are slipping (like some Asian markets) and which, like many European markets, except Spain, are sluggish (see graph).

Jill Compton
Vice-president of MSCI

Driving real estate performance are globalisation and urbanisation. By 2030, two thirds of the world's population will reside in cities and the impact on real estate will inevitably result in fierce demand for commercial and retail space. There will also be added pressure on an already undersupplied residential market, especially in key cities. Mexico, SA and Turkey will also require additional commercial space as they attract new business, says Compton.

The larger the investor, the more the choice, so many investors enter joint ventures. This is particularly true in Asia, with its contribution to global output expected to be larger than Europe and North America combined by 2030. That shift of economic power from the West is seeing a number of large investors pushing to increase exposure in China and Brazil. Residential, says Compton, is one of those pushes. Unsurprisingly, the hot topic in the UK is also residential. While many European markets may be unattractive for investment, much international capital is going into Germany, she says.

Andrew Konig
CEO of Redefine Properties

This, and the importance of partnerships, is something Redefine Properties knows a fair bit about. The JSE-listed real estate investment trust (REIT) has a 15% offshore exposure – split between Europe and Australia – partnering with Redefine International into smaller format retail stores in Germany and co-investing with Cromwell in Australia, where they hold a direct commercial property.

"Listed funds traditionally look at developed markets with clear legislation and tax rules," Andrew Konig, CEO of Redefine Properties, tells *Finweek*. "But the key to offshore investment is a local partner with a presence in the geography to be invested into." Therefore Redefine has not invested into the US. "The US is not that tax friendly and that means value leakage as a result of not being able to pass on the withholding tax benefit to our investors in South Africa." According to Konig, it is the preservation of capital that drives investment into First World countries.

If we heed Dries du Toit's advice (see page 19), then 30% to 40% of our total assets in our investment portfolio – that includes property – should be diversified overseas to derive the benefit of those returns. ■

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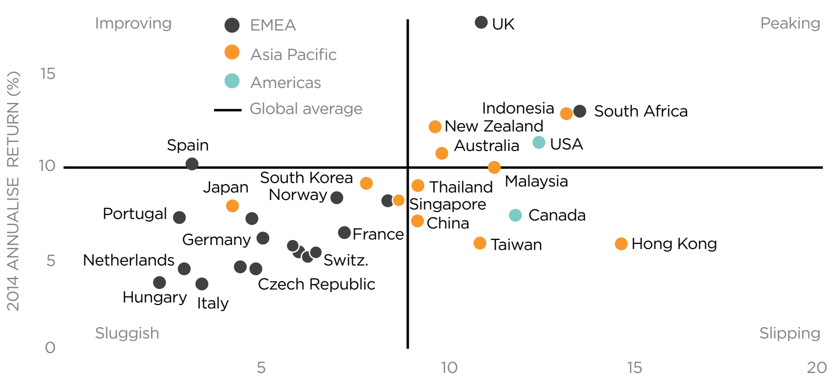
NATIONAL MARKETS ARE AT DIFFERENT STAGES OF THEIR REAL ESTATE CYCLES

TOTAL ALL PROPERTY RETURNS BY COUNTRY

2014 PERFORMANCE vs **5-YEAR ANNUALISED**



Note: Chart excludes Ireland

5-YEAR ANNUALISED (%)

SOURCE: MSCI

Edcon has tough issues to iron out

BY SHOKS MZOLO

Just 10 years ago, the **Edcon group was making R1.3bn in net profits.** But for the year to March, net loss came in at R2bn on the back of R29.4bn in revenues. The only piece of good news, strictly for eternal optimists, is that net loss has narrowed from last year's R2.4bn. So where did the group go wrong?

With brands like Edgars, Boardmans and Jet spanning 1 500 stores in SA, and over 200 other stores in seven neighbouring countries, Edcon's chains rank first or second in most of its product lines. This, as well as enviable brands and foothold, used to translate into massive profits. But for the past few years Edcon's income statements have been splashed in red ink. How did this happen?

Edcon simply "lost focus". That is according to Argon analyst Junaid Bray.

"Overburdening the balance sheet by gearing the business up at the peak of the previous cycle, just prior to the global financial crisis, constrained Edcon's ability to reinvest in its business and maintain its core credit offering," says Bray.

Hence, he says, Edcon, which is owned by US company Bain Capital, could not invest to grow and defend its market share in the face of intensifying competition from both local peers and "from the increasing presence of foreign retailers like Zara and Cotton On".

When Bernard Brookes takes over as Edcon CEO at the end of September, his legacy will be defined by how he tackles such matters.

With predecessor Jürgen Schreiber gone to pursue an opportunity in Canada, long-serving COO Urin Ferndale and Roanne Daniels, a Bain representative, are joint interim CEOs until the end of September.

Brookes joins Edcon after nine years in charge of Myer, Australia's premier department store chain. Edcon noted that, under Brookes, Myer's market cap grew from AU$1.3bn (when it floated on the Australian Stock Exchange in 2009) to over AU$2.3bn now. However, Myer's profits, and stock, suffered during the second half of his tenure.

Edcon chairman Dwight Poler regards Brookes highly. Edcon, according to Poler, is "very pleased" to have Brookes on board.

In contrast, in an interview with *Business Day*, Sydney-based Impact Retailing consultant Stuart Bennie offered anything but a pleasing preview. "Somehow he seemed to lose focus," said Bennie of Brookes's other activities. "It beggars belief that a CEO who was fired – put it how you will – in Australia can be hired to join an ailing Edcon."

TOUGH TIMES

Edcon, which has laid off an unspecified number of employees in recent years, discussed "selling assets or ceasing operations to improve [its] short-term liquidity and service [its] cash payments" and thus "depress" and "impair" its abilities, it said in July, when it also disclosed that its overdraft had quintupled to R25m.

June quarterlies show a drop in store sales at the Edgars division, the main source of income, whose base now extends to 549 outlets. At the lower end, including Jet, sales softened. Sales and margins weakened at stationer CNA as it "right-sized" trading space and added five branches during the quarter. Modest growth from neighbouring countries had a minor effect on Edcon's losing streak.

Spokesperson Debbie Millar dismisses assertions that things are looking bleak. Instead, she singles out EBITDA, which has risen over the last four quarters (but is far off its best).

EDCON BY NUMBERS

	2014	2015	Change
Market share*	23%	N/A	--
Total revenues	R28.78bn	R29.42bn	2.2%
Retail sales	R26.97bn	R27.51bn	2.0%
Capex	R1.35bn	R1.04bn	(23.1%)
Pro forma adjusted EBITDA#	R2 69bn	R2.73bn	1.4%

**Based on the independent retail life cycle, which represents 60% of the formal clothing and footwear market. #Pro forma adjusted EBITDA is adjusted for net income derived from 100% of the trade receivables including finance charges revenue, bad debts and provisions and including a pro forma fee earned by Edcon.*

REGAINING MARKET SHARE

For Bray, regaining lost market share is long overdue. But it won't be easy as rivals – mainly Mr Price and Pepkor, who have made gains from its losses – fight on. Critically, it may be difficult to win back lost clientele, he adds. Redefining the market and product mix is another top priority. "The high-end branded goods strategy has lowered the affordability of Edcon's offering, which has become more reliant on credit, while Edcon doesn't have the ability to significantly offer credit," asserts Bray.

Edcon slumped to its current state after being delisted in 2007, and lost a fifth of its market share to rivals, following the Bain R25bn buyout deal.

Though she concedes a fall in market share, Millar feels the bugbear is debt rather than profits. So, with the firm having concluded an exchange offer, relating to its €425m senior notes, in July it has "substantially improved" liquidity, with net cash interest payment obligations reduced, observes Millar. This debt, maturing in 2019, is rated a worrisome CCC- by Standard & Poor's.

"With the offer behind us, we can focus on the business and work to further improve our sales," Millar notes, adding that Absa – which bought Edcon's book in 2012 – has an "extremely low" appetite for new credit.

Bray feels that Edcon should resume its consumer credit offering given that these sales remain a chunk of its business and believes that while its restructuring of the debt is significant, it "needs a lot more to drive a proper turnaround".

Millar cites Edcon's plan to stabilise its credit sales through its in-house credit offering as well as by possibly "introducing another third party".

The fact that Edcon is SA's largest fashion retailer by far, patronised by 12m customers last year, means little while losses continue and it struggles to service debt.

The point is to regain lost share and churn net profits, argues Bray. That will fix the debt problem.

Until Edcon's top brass acknowledges that and moves to remedy these issues, the group's fortunes will not improve.

Gallo Images/iStock

BLEAK TIMES FOR **RETAILERS**

This winter has probably been one of the coldest for local retailers. The Consumer Confidence Index (CCI) has plummeted to a 14-and-a-half-year low. On the other hand, the continued weakness in the rand is stoking inflation.

Exacerbating a softening rand is a slowdown in government spending, as well as tax hikes, FNB chief economist Sizwe Nxedlana noted at the launch of the latest quarterly CCI. The index shows that consumer sentiment plunged from 0 to -4 index points for the period under review.

This is even worse than South Africa fared at the height of the contagious economic meltdown that was triggered by the subprime crisis in the US. The financial position of the salaried population, and those on social grants, has come under pressure amid sustained weak economic growth, said the Bureau for Economic Research.

Against this backdrop, retailers are expected to struggle in the short term. However, for now, some have practically defied gravity. Leading the pack is Woolworths, which saw its sales advance by a hefty 55% with net profit hitting R1.6bn, after jumping 5%, for the first half to end December. Full-year results are expected on 27 August. A look at the trading update suggests that the party is set to continue for Woolworths.

Woolworths' stock is up 30% for the year to change hands at R100 per share (or R106bn in market cap). Also hitting the right notes, from the

"EDCON SLUMPED TO ITS CURRENT STATE AFTER BEING DELISTED IN 2007, AND LOST A FIFTH OF ITS MARKET SHARE TO RIVALS."

market's angle, is Mr Price. Its share, now trading at R243 (R61bn market cap), has soared 25% since this time last year.

Notwithstanding a recent rally on the JSE, Truworths seems to be sputtering.

It appears that the arrival of foreign players has done nothing to dim local heavyweights. Set to join the list is Swedish chain H&M, likely to launch its first branch in Sandton in November.

Edcon is welcoming new arrivals. "Competition is inevitable," says Edcon spokesperson Debbie Millar. "We have in fact embraced the international brands by bringing many of them into the malls through standalone stores and shops [within] Edgars stores," she explains, citing brands like Tom Tailor, River Island and Calvin Klein.

Despite the rapid growth of foreign retailers, Argon's Bray says they still occupy a relatively small slice of the local retail market.

"However, given their aggressive growth plans, they could become significant players in the next decade, especially in a tougher, more competitive consumer retailing environment," he says.

TFG

TO LAUNCH NEW KIDS' BRAND

BY BUHLE NDWENI

The Foschini Group (TFG), home to retail brands such as Foschini, Markham, and Sterns, is introducing children's fashion brand Soda Bloc soon as part of its strategy to remain profitable in an economically tough environment.

TFG CEO Doug Murray says 13 Soda Bloc stores would be open in total before the end of the group's financial year in March 2016.

Another move was the acquisition of ladies' wear business Phase Eight (concluded in January), bringing TFG brands to a total of 19. Phase Eight, based in the UK, has a footprint in 17 international countries and will form 12% to 14% of the entire group. Phase Eight will not be rolled out in South Africa as it tends to be pricier than local brands.

It also launched into e-commerce last November with home store brand @Home. The group also rolled out an omnichannel (an online platform where customers can research and compare products) over a month ago, which focused on brands in its sport division – Totalsports, Sportscene and Due South. Next year Foschini and Donna Claire will join them. TFG hopes to have all brands online by 2018, says Murray, which will only be available to consumers shopping within SA. ■

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The gold sector according to **Randgold's CEO**

BY DAVID MCKAY

Randgold Resources CEO, Mark Bristow, has never been short of an opinion, especially regarding the gold sector's ability to blow itself up.

He thinks reluctance to close loss-making mines is another tap on the self-destruct button. "The industry is long past the point where it could have reinvented itself.

"The industry is now struggling with survival. It can't get out of its own debt because it doesn't have enough quality reserves. Banks too are too scared to pull the plug. […] It isn't pleasant," he said in an interview with *Finweek*.

If that sounds like morbidity, it's worth reflecting that Randgold is one of only a handful of gold mining firms that has its head clearly above water. Debt-free, and generating profits from its West African mines, the company is keeping a close eye on merger and acquisition opportunities, although Bristow's preference is for organic growth.

That's the model the company has pursued since inception 20 years ago on 7 August 1995. Born in the teeth of the last gold price depression, when the metal was priced at $252/oz, Bristow's Randgold almost went out of business. Having come through near extinction just after inception is perhaps why Bristow is an arch-conservative when it comes to planning around the gold price.

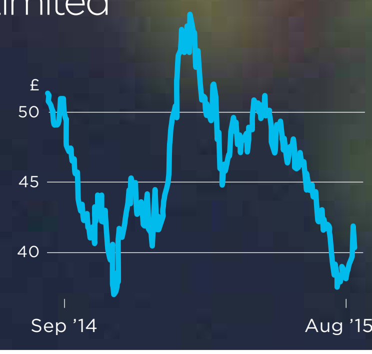
The declines in the gold price and gold producer share prices today are well documented. AngloGold Ashanti has lost 61% of its value in the past 12 months and has surrendered three-quarters of its total value – equal to R100bn – in the past five.

Oddly enough, the gold price was trading at only $100 more per ounce in August 2010 than today's level, but the trajectory was upwards. The gold price subsequently climbed to $1 420/oz by mid-December in 2010.

What's changed is investors have become disillusioned with the sector's inability to capitalise on those good times, providing precious little in returns and spending a wealth in development which accounts for the debt pressure today.

"The last drop in the gold price brought the cliff everyone is talking about into focus," said Bristow. "It's almost like the industry wants to self-destruct. Companies are just mining gold now in order to cover their debt," he added.

Randgold Resources Limited



52-week range:	£36.38 - £57.50
Price/earnings ratio:	27.8
1-year total return:	-19.26%
Market capitalisation:	£3.75bn
Earnings per share:	$2.27
Dividend yield:	1%
Average volume over 30 days:	578 528

SOURCE: Bloomberg.com


Randgold's Tongon mine is located in the north of Ivory Coast.

Mark Bristow
CEO of Randgold Resources

THE CASE FOR AN ACTIVELY MANAGED GOLD PRICE

In the 1990s, AngloGold set aside time in its quarterly presentations for an update of its hedge book, then managed by the late Kelvin Williams to whom the idea of not fixing a price for gold was anathema.

That was when the gold price tended to head down rather than up, and price volatility was to be avoided. These days, hedging is something of a dirty word even though gold is a bear market again.

Finn Behnken, head of corporate development (Africa) for precious metal specialist company Auramet International, thinks there is a strong case for miners to actively manage the price that they receive for their precious metals and this may include hedging, or as he calls it "derisking price downside"; he certainly doesn't believe that just accepting the sales price of gold or platinum on the fix to be the ideal solution.

"What if you didn't price the gold when you delivered the gold, but a bit before, or afterwards?" he said in an interview. "Auramet can offer these solutions to gold and platinum companies despite where the physical metal ends up."

In the case of Royal Bafokeng Platinum (RBPlat), its sales agreement with Anglo American Platinum, which refines the platinum group metal (PGM) concentrate supplied to it by RBPlat, means it can't determine the price, and hence immediate profitability, for several months until the metal is sold by the refinery.

When it publishes accounts, it has to provide a revaluation of the pipeline to take account of the basket of PGMs several months after concentrate delivery. In the current market, where metal prices are falling, that's quite a negative.

Few companies are as perversely affected as RBPlat, but Behnken believes gold companies could benefit by selling gold to his company up to 30 days before delivery depending on how advantageous the market looks.

"Gold producers drop the metal off at Rand Refinery and just take the AM or PM fix," he said. "Auramet, however, can price the gold before it's delivered to Rand Refinery, and actively work markets to take advantage of any runs." Auramet takes a commission.

The company was founded 11 years ago by members of Standard Bank's New York offices and transacted 2m ounces of PGMs and 5m ounces of gold in 2014.

It doesn't speculate on the precious metals it receives from producers, so remains unconflicted, but sells the metal on to consumers including the automotive, jewellery and dental sectors.

It also provides merchant banking including bridging capital, pre-production financing and working capital which in the current straitened times is much in demand.

Behnken was previously with Nedbank Capital's mining team, but from 2010 he worked as an executive for Pallinghurst Resources where he was CEO for Tshipi é Ntle Manganese Mining, which developed the 2.4m ton/year Tshipi Borwa mine in the Northern Cape. ■

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Brian Chesky
CEO of Airbnb

Why **tech companies** love Africa

BY JININE BOTHA

The increasing use of cellphones across the African continent has enabled a variety of foreign tech companies to cash in on the potential growth the continent provides. At the same time, this has created an enabling environment for locals to take advantage of the same growth.

Already locals have started cashing in on selling accommodation options to a global tourist market on Airbnb.com. South Africans are also able to become transport service providers through the Uber-application and advertise products worldwide via Facebook.

It is predicted that internet usage on cellphones will increase 20-fold in the next five years in Africa – double the rate of growth in the rest of the world. Jean-Pierre Matthews from Absa's Alternative Asset Management told global investors during Absa's Investment Conference in Sandton in June that the telecoms sector in Africa is ripe for development. "In South Africa 9% of people have a fixed telephone line, while 94% of the population has a cellphone – compared to the rest of Africa where only 3% have fixed telephone lines and about 50% use cellphones."

The latest's sign that Africa has become the next frontier for American tech companies was when the CEO of Airbnb, Brian Chesky, flew in for a visit to promote the accommodation platform. "Africa has been our fastest-growing region. Our listings have doubled each year, more than in the US," Chesky told reporters in July during his first visit to South Africa.

Based in San Francisco and founded in 2008, Airbnb is an online community marketplace for people to list, discover and book unique forms of accommodations around the world – online or from a cellular device. Although the platform has been used in SA for some time, the number of people staying in Airbnb listings on the continent has increased by 145% in the past year, while the number of African citizens using Airbnb to travel abroad has increased by 139%.

Acting as a host on Airbnb helps people make ends meet. An economic impact study conducted by this online accommodation platform, found that more than half the people who act as hosts by renting out a spare room in their home are able to keep their homes because of the additional income.

According to its Middle East and Africa manager, Nicola D'Elia, more than 50% of hosts are from low- to moderate-income households. The study also found that 48% of host income is used to pay for regular household expenses such as rent and groceries. D'Elia adds that Airbnb's economic benefits also extend beyond the hosts and travellers who use the platform. "Because many of the listings fall outside the main tourist areas or city centres, travellers get to neighbourhoods rarely covered by traditional hotels. So the financial benefits do not just reach the hosts, but also flow to local businesses which are traditionally less frequented by tourists."

In Paris, the city with the most Airbnb listings, Airbnb generated economic activity of $240m, while New York – second on the list – saw Airbnb generate $632m in the city, which included $105m in direct spending in the outer boroughs – neighbourhoods that don't typically benefit from tourism dollars.

Another application, Facebook, is already an important part of how people and businesses connect in Africa. In June there were 120m active Facebook users in Africa – a 20% increase from 100m users in September 2014. More than 85% of these people access Facebook from their cellphones.

Images: Airbnb

AIRBNB helps travellers from all over the world connect with hosts offering unique forms of accommodation in 190 countries. The platform has seen phenomenal growth on the African continent.

ATTRACTIVE DEMOGRAPHICS FOR TECH UPTAKE IN AFRICA

- Population of more than 1.2bn people and growing at more than 2% a year
- 43% are under the age of 15
- Rising education levels and many people who are tech-savvy

SOURCE: Enterprising Investor

RIDING THE AFRICAN GROWTH WAVE

Africa's main attraction for businesses is that it has been growing, while richer regions have stalled. Its demographic prospects are promising; as America, Europe and China age, Africa can expect a bulge of workers in their productive prime. Although skills are in short supply, they are increasing. The McKinsey Global Institute found that in 2002 only 32% of Africans had secondary or tertiary education, but by 2020, almost 50% will have these levels of education.

According to Isaac Matshego, an economist at Nedbank, tech companies are mainly penetrating the middle class, enhancing communication and movement. "As for the low-income group, which constitutes the majority of Africa's population, the penetration of social media also seems to be high, but I would not expect that to be the case for Uber, because this service is targeted at the higher income group."

The middle class in sub-Saharan Africa is expanding rapidly. With the seemingly unstoppable growth of cellphones, greater access to the internet and an increase in access to education, change is happening, and people have more disposable income to spend.

International tech companies like IBM and Microsoft have been riding the growth wave for years. Over the past three years, IBM established a $100m Africa research facility in Nairobi. Facebook recently opened its first office in SA and Starbucks announced its launch into sub-Saharan Africa last month.

Spokesperson for IBM, Vera Rosauer, told *Finweek* that IBM sees Africa as a priority continent, given the rapid growth and transformation of African businesses.

"In addition to our overall commercial investment across Africa – IBM Research – Africa hit the ground running in its two years. We have engaged with our local environment, we have listened and have translated our insights into real technology solutions that are starting to show impact. We have made a dedicated effort to be inclusive and engage the local community."

Nicola D'Elia
Airbnb Middle East and Africa manager

IBM now has a presence in 24 African countries. During the past few years alone, the company has opened offices in Angola, Kenya, Nigeria, Senegal, Mauritius and Tanzania.

"In addition to the commercial offices, we have also opened a research and development (R&D) facility in Kenya and more recently in SA to develop localised solutions to some of the main challenges that Africa faces as it develops," says Rosauer. "We also have innovation centres in Kenya, Nigeria and SA that support tech start-ups and business partners as they work towards developing Afro-centric solutions for businesses across the continent." One such project was the Project Lucy initiative launched in 2014 in which IBM committed a $100m to a 10-year investment to bring Watson cognitive technologies to Africa.

An analyst from the CFA Institute, Melissa Cook, told investors at the 60th Financial Analysts Seminar in Chicago this July that they needed to push back against those who say, "Africa is too risky."

"Africa matters and will drive global growth for decades," she said. "It is the battleground for China-US competition in an awful lot of really important sectors and is a new source of earnings and returns for companies that can get the right positioning."

COPYING DIGITAL INNOVATORS NOT ENOUGH TO STAY AHEAD OF A FAST-CHANGING MARKET

Brands that are starting to feel the competitive heat from multinational digital disruptors such as Uber, Airbnb, Amazon and Facebook need to embrace digital innovation as a core business capability if they are to compete effectively in the future.

According to Richard Mullins, director for Middle East and Africa at Acceleration, companies must embed digital technologies and customer-centric thinking deeply into their businesses if they want to innovate to win.

"Today, it's not enough to simply force digital capabilities onto an existing business model. Organisations can no longer run a mobile app or a website as a silo, set up social media accounts without thinking about how they'll impact the wider customer experience, or throw money at digital advertising without looking at the entire marketing strategy."

He adds that it is up to CEOs to lead digital change. "They need to look at their businesses and find ways that they can use digital technology to change their industries. It is CEOs who have the complete view of the business and the ability to rally all of its resources under the banner of digital transformation. Without strong leadership, digital projects will become ineffectual silos rather than helping to drive a whole new strategy and operating model for the business." ■

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MONDI

BUY SELL HOLD

Very pleasing results

BY SIMON BROWN

REALLY STRONG RESULTS from Mondi show not only improving margins across all its business units, but also strong cash flow. Perhaps even more important is the fact that completed and ongoing projects are meeting deadlines, within budget.

What I also liked was the "principal risks and uncertainties" included at the end of the results, which really helps one understand the business.

Paper in itself is not exciting, but with a serious packaging business Mondi is much more than paper. Further, Europe is where the vast majority of revenue and profits are generated – SA is fairly insignificant – and the US business is gaining traction, although it's still very small.

The share price has done very well, up some 75% in the last year and 325% over three years. But earnings have kept pace and the stock is not expensive. Even though the second half of the year is typically softer for the stock, this is a well-run operation doing very well in a tough environment. ■

Simon Brown
Last trade ideas

- SELL **Kumba Iron Ore**
- BUY **Vanguard ETF**
- HOLD **AdvTech**
- HOLD **Taste Holdings**

NASPERS LIMITED

BUY SELL HOLD

A bearish outlook

BY MOXIMA GAMA

HONG KONG-LISTED Tencent Holdings is worth R2tr today, with Naspers's* 34% share valued at around R680bn, resulting in an escalation of around 550% in share price over five years. Tencent offers services in the social network sphere as well as web portals, e-commerce, and multiplayer online games – trailing a few global tech company heavyweights such as Apple, Google and Facebook.

Also part of Tencent is WeChat, a smartphone instant messenging, digital wallet and car booking service all in one, which is worth about $83.6bn (R1tr), according to HSBC.

WeChat, with 600m users, is probably far ahead of the pack in terms of its shopping offerings and in-app games. However, the internet space is a dog-eat-dog world, and constant innovation is required to remain relevant and curb fierce competition. Also, China's economic slowdown will most likely negatively impact consumer confidence and gnaw at company revenues.

Announcing its results for the second quarter on 12 August, Tencent reported a 19% rise in revenue. While nothing to sniff at, it was slightly below estimates, indicating that the stock's current bear trend has steepened. Being overextended also supports a further correction to Tencent's share price, which backs a bearish call to sell or hold off in the short term.

For the past five months Naspers has been confined between R2 030/share and R1 656/share. Though Naspers is in a cushy position from investments well made, downside within the range band was spurred by Tencent's second-quarter revenue results. A short should be initiated below R1 656/share, as downside to the R1 282/share short-term target could ensue. Signs of bearishness will become even more apparent if Naspers struggles to recover beyond R1 815/share. ■

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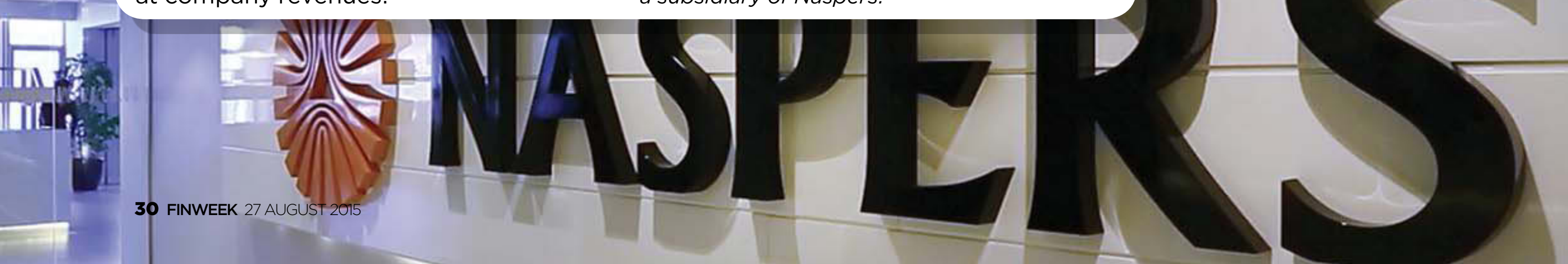
*Finweek *is a publication of Media24, which is a subsidiary of Naspers.*

Moxima Gama
Last trade ideas

- BUY **Telkom SA**
- SELL **Imperial Holdings**
- BUY **Mediclinic**
- BUY **Growthpoint Properties**



Get great exposure to **commercial property** in the US

BY JACO VISSER

CATALYST GLOBAL REAL ESTATE PSG FEEDER FUND

The fund invests primarily in listed real estate securities on international stock exchanges. It feeds into Catalyst's Global Real Estate UCITS Fund, which is domiciled in Ireland. The fund is rand denominated and focuses on stocks classified as investors – those with more than 70% of their income derived from rent – rather than developers. About two thirds of the fund are invested in North America, with Asia – excluding Australia and New Zealand – being its second-largest geography.

FUND INFORMATION

Benchmark:	FTSE EPRA/NAREIT Developed Rental Index Net Total Return
Fund managers:	Andre Stadler and Jamie Boyes
Total Expense Ratio (TER):	2.12%
Fund size (Rm):	R1.09bn
Minimum investment amount:	R2 000 lump sum
Contact information:	021 657 5000 and mail@catalyst.co.za

PERFORMANCE (ANNUALISED)

AS AT 31 JULY 2015 GROSS OF FEES:

	1 year	3 year	5 year	Since inception in 2009
Catalyst Global Real Estate PSG Feeder Fund	23.92%	26.05%	25.21%	27.59%
Benchmark	20.19%	25.25%	23.77%	26.01%

TOP 10 HOLDINGS

(AS AT 31 JULY 2015)*

1	Simon Property Group Inc.
2	Equity Residential
3	Avalonbay Communities Inc.
4	Public Storage
5	Health Care REIT Inc.
6	Prologis
7	Ventas
8	Unibail – Rodamco SA
9	General Growth Properties Inc.
10	American Tower C

**Catalyst Global Real Estate PSG Feeder Fund does not make its share composition public.*

Fund manager insights

THE FUND IS betting on commercial property across the board in the US. This includes retail and industrial space, data centres, hospitals, storage and hotels, according to fund manager Jamie Boyes.

"We are currently seeing some nice value in the apartment space in New York," he says.

Demand for these rental properties is driven by a decline in the homeownership rates in the US, Boyes says.

The fund still sees value in "good-quality retail", according to him. These include high-end malls. As online shopping increases its share of the market, Boyes says that demand for brick-and-mortar retail outlets will remain.

The fund steers clear from real estate development, which could be "volatile", and rather invests in companies with an existing rental income stream, he says.

WHY *FINWEEK* WOULD CONSIDER ADDING IT

The fund's biggest exposure is to the US whose economy keeps on generating jobs and businesses. When an economy is growing, businesses need space to rent and newly-employed workers have to stay somewhere. Rent is also a more predictable stream of income than dividends, which rely on profit generation. Finally the fund generates income in foreign currency, mainly dollars, which makes it a rand hedge. ■

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Diversifying your portfolio

BY SIMON BROWN

Industrial stocks are likely to drop out of the Top40 and be replaced by other winning stocks.

THE BEST LONG-TERM PORTFOLIO NEEDS TO BE A **DIVERSIFIED** ONE.

I was looking at the returns of the main local indices since the end of the financial crisis in March 2009 (in hindsight we can exactly pinpoint the end, at the time we had no idea it was finally all over). This got me thinking about a number of issues, but firstly the stats (all excluding dividends paid).

The Top40 has done around 180% as has the MidCap Index, while the Resi10 is the laggard – up only 5% over the period. The Indi25 is the clear winner, gaining some 360%, with the Fini15 up around 255%.

Aside from the Resi10, they're all decent returns but many would look at these stats and wish they'd bought the Indi25 and nothing else. While the Indi25 has been the clear winner, the real question is what would have made you buy this index back in 2009. Ignoring hindsight bias, this question perhaps poses more of a problem. Let's say you had bought the Indi25 back in March 2009, you have to attempt to figure out when to sell the index and move into the next winning index. The reality is that there is no way the Indi25 will always be the winning index.

The point here is that the best long-term portfolio needs to be a diversified one. So in 2009 it would have included some Indi25 stocks, as well as the other middling stocks and – dare I say – even some Resi10 stocks (the argument could be made, as I often have, that Resi10 stocks are never really long-term 'buy and hold' stocks).

A diverse portfolio would have essentially returned the Top40 return of around 180% for the period, around 23% a year compounded and well ahead of inflation, thus creating real wealth. Some tweaks (such as going light on Resi10 stocks) would have done even better.

The beauty of the Top40 is that it is designed to kick out losing stocks whose prices are falling, while adding the new winning stocks that are seeing share price gains. So the Top40 from 2009 looks very different from the 2015 Top40 index.

In 2009, the Top40 index included 13 resource stocks while today it includes only six – the replacement stocks have pretty much all been industrials. As the industrials start to lose their way going forward (as will certainly happen, although *when* is uncertain), they will start to drop out of the Top40 and be replaced with the new winning stocks.

This self-correcting nature of the Top40 index is why I have it as one of the core exchange-traded funds (ETFs) in my portfolio, but I personally much prefer the equal weighted Top40 ETF – BBET40*.

I will build on this core ETF portfolio by adding the awesome stocks that I consider to be the significant winners over time. This is my attempt at outperforming the generic Top40 – this is where we have to be very careful about which we include. These individual stocks have mostly been industrial stocks with a few financial and small- or mid-cap stocks – resource stocks are not core long-term stocks due to their cyclical nature.

We could make it even simpler by using some index ETFs instead of individual stocks around the core, adding property ETFs or any of the other three (Indi25, Fini15 or MidCap ETFs).

With these individual stocks or ETFs that we add around the Top40 core, we increase risk, are subject to being wrong and can be hit by bad timing, so we should do so carefully and with at least 50% of our portfolio in ETFs. ■

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**The writer owns BBET40.*

Can government spend breathe life into **Aveng?**

BY MOXIMA GAMA

The construction industry in South Africa has been depressed for almost 10 years and continued to face challenges in 2014, a year fraught with labour unrest, substantial delays on some of the country's major construction projects and setbacks in the economy.

This has put immense pressure on construction companies, whose share prices have dropped to levels last tested at the turn of the century.

Aveng Limited, the holding company for a group of companies operating primarily in the construction, engineering and mining industries, is no exception.

Through its subsidiaries, the group provides a variety of services in industries such as mining, steel processing, construction, property development and civil engineering. Not surprisingly, Aveng has been in a six-year bear trend.

When the company announced its results for the year to June earlier this month, the mood remained depressed, with Aveng hinting at the possibility of more restructuring should things not look up soon.

One thing that could change the fortune of the industry is government commitment to infrastructure spend. With construction a sizeable economic contributor and employment provider in SA, it is in the government's interest to revive the industry. Government is looking to spend R813bn on infrastructure over the next three years – some of which might go through Aveng's books. The roll-out has been sluggish so far, but there seems to be a growing interest in construction shares. This could mean the end of Aveng's bearish road.

Another potential positive could be the cyclical nature of the construction industry. After a major boost in 2010 (when SA hosted the Fifa World Cup), the industry experienced a period of slowdown owing to the global economic downturn. The cycle is, however, starting to turn. According to a recent report by TechNavio – a leading technology research and advisory company with global coverage – and many other construction reports, the industry is expected to regain the momentum, potentially driven by government's National Infrastructure Plan.

POSSIBLE SCENARIO: Announcing its annual results, Aveng reported a full-year net operating loss of R288m to June 2015. Earlier, it cited labour disruptions and an industry-wide slump at home as reasons for the decline. It also announced a loss per share of R11.48 (compared with R10.19 the previous year), and headline loss per share of R14.43 (compared with R11.25). Key support is at R4.10/share, and the oversold relative strength index (RSI) is likely to trigger upside.

My take: Aveng has breached the third and final resistance trendline of its major bear trend (a bullish sign) and has fallen to levels last tested in 1999. A recovery above R7.10/share would be a good level to go as long as Aveng could trade to the R10.15/share resistance level and possibly advance to the R14.20/share mark. However, the RSI must follow suit by breaching its major resistance trendline. Distinct upside to R25/share could be seen once Aveng overcomes the R14.25/share mark.

ALTERNATIVE SCENARIO: Aveng could drop further to its all-time low at R3.50/share upon a reversal below R4.10/share. ■

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52-week range:	R4.61 - R24.28
1-year total return:	-78.68%
Current P/E ratio:	-
Market capitalisation:	R2.08bn
Earnings per share:	R1.44
Dividend yield:	-
Average volume over 30 days:	1 160 574

SOURCE: Bloomberg.com

Simon's stock **tips**

BY SIMON BROWN

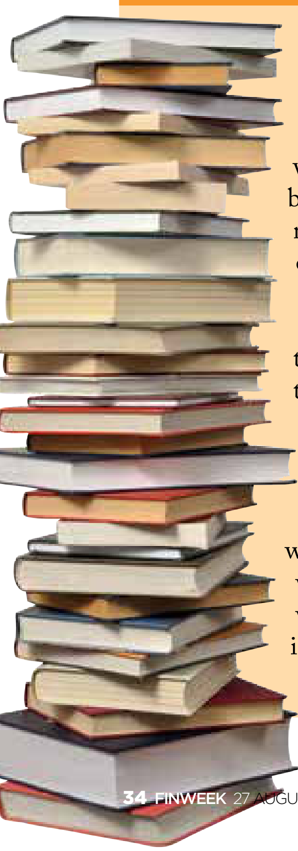
OCCUPANCY RATE SHOOTS UP FOR CITY LODGE

City Lodge* results saw occupancies increase from 63% to 67%, a substantial jump, but what we didn't see was the leverage effect flowing through to profits. An increase in occupancies should result in improved revenue (up 22.6%) and costs should not rise as fast due to the fixed nature of many of them. Yet HEPS was up only 18%. What hit the HEPS figure was in part the new Waterfall City Hotel and buying out the remaining 50% of Courtyard Hotels. But the company still pays a very chunky dividend as it pays out 60% of normalised earnings in dividends, which increased by 17.7%. The big question is how much higher City Lodge can get its occupancy levels. I expect it to move to above 70% with 75% a tough but possible goal in the years ahead.

POSSIBLE COMPETITION FOR THE JSE?

We saw good results from the JSE with HEPS up 13.3%. The question here is about potential competition. The Financial Services Board (FSB) has received a few requests for exchange licences but it will be very tough to compete with an entrenched exchange such as the JSE. That said, I spoke to a few brokers regarding this, and they said they'd certainly do the tech work required to offer trading on a new exchange if it significantly reduced their costs. Fees for the JSE (which have been reduced) are the biggest expense for any stockbroker and if a new exchange can markedly reduce those fees, brokers are very interested. The bigger question is what stocks will be trading on any new exchange – it would have to offer a significant portion of JSE-listed shares or it will be a non-starter.

CURRO TO LAUNCH 'LAND BANK'



Results season has kicked off and Curro came out with HEPS up 68% at 14.8c for the first six months of the year. What interested me was the comment that it is putting aside R300m for a 'land bank'. I didn't know what that meant, but Twitter helped me understand – basically it will be buying up prime land for schools but not developing it just yet. What it's doing is blocking others from buying and developing the land. This makes sense in that location is critical for schools and good land for schools is tough to find aside from in townships. With new developments it is also important that companies protect themselves. But what company is Curro protecting itself against? AdvTech is the obvious answer but actually competition for well-located land goes well beyond just schools. Secure residential, office blocks and retail centres also want well-located land. What did strike me about the results was the lack of commentary. Unsurprisingly, nothing was said about the failed AdvTech deal and most interviews with CEO Chris van der Merwe focused on this issue.

BETTER TO OPT FOR EQUAL-WEIGHTED INDICES

Stanprop, the Stanlib property exchange-traded fund (ETF), published a Sens on the rebalanced portfolio. The ETF tracks the SA Listed Property (SAPY) Index so it's just rebalancing to remain in sync with the index. But what struck me was that, being a market cap index, just three stocks – Growthpoint, Hyprop and Redefine – make up over 47% of the SAPY's 22 stocks. This is why I far prefer equal-weighted indices and in the property space we have CoreShares PropTrax Ten (PTXTEN)*, which includes the 10 largest property stocks at 10% weighting each.

METROFILE LOOKIN' GOOD

On the trading update front a strong update from Metrofile. It is really a boring company (boring is not bad in the investing world) and is expecting HEPS to be 13% to 16% higher, suggesting strong growth in terms of clients and market share gains. ■

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The writer owns shares in City Lodge and PTXTEN.

Transaction Capital: Transporting the nation

BY SAMANTHA PAUWELS
Portfolio manager at Cannon Asset Managers

Transactional Capital is a niche financial services company that has stayed under the radar of many investors, despite a strong track record. The group refined its strategy and business model in 2014, when it restructured following the timely disposal of unsecured lending business Bayport and payment services company Paycorp.

These disposals were value accretive, reduced complexity and derisked the business substantially. Paycorp was effectively sold for a 19 times earnings multiple and generated an internal rate of return of 18.2% for the group. More impressively, Bayport was sold during the unsecured lending storm for R1.3bn, banking a 32.6% internal rate of return! Management distributed some excess capital from the sale of these assets back to shareholders in the form of a handsome 210c capital distribution.

Currently, the group's main operating divisions are split between asset-backed lending (60%) and risk services business (40%).

Its SA Taxi-division is one of the neatest operating businesses I have come across in South Africa. Largely misunderstood, the business currently finances 25 000 taxis or rather, 25 000 small and medium enterprises. The taxi industry is a vital component in the growth of our economy, responsible for 63% of public transportation, moving 2.5m commuters each day.

The group has successfully mastered the asset-backed lending model by financing, insuring, refurbishing and monitoring the performance of each business, or taxi. While most banks shy away, deeming it to be more risky, SA Taxi has seized the opportunity, understanding the customer, business and risks associated with this market. SA Taxi holds a wealth of data collected over the years, enabling it to analyse the route, estimate cash flows and the market size of each taxi owner's permitted and regulated trips. This greatly assists the company in correctly pricing each taxi as a business, which is a key differentiator to the big banks. The major edge that SA Taxi has is its ability to repossess this asset in the event of non-payment. Banks simply do not have the data, systems or capabilities and hence are unable to compete head-to-head with pricing.

The margin enhancement as well as the other benefits from keeping much of the business in-house is material. From an insurance perspective, the business model is excellent: the claim rates are far lower than those of traditional insurers. Taxi drivers do not bring the taxi in for hail damage or a small bumper bash, as this puts them out of business for a while. When there is a major accident, SA Taxi is able to repair, refurbish and recycle the asset in under three days through its Taxi Mart warehouse with dedicated mechanics, panel beaters and importers of the Toyota mini bus. The repair work is done in half the time it takes traditional repair shops and at a fraction of the price. This enables SA Taxi to charge lower premiums, return the asset to the driver timeously and hence reduce the effect on the businesses cash flow, increasing the owner's ability to pay.

At first glance, the non-performing loans ratio of 26% on the R6.6bn loan book seems daunting. But the key figure to analyse is the credit loss ratio of 5.1%, as the business model enables SA Taxi to recover the asset. Provisions against non-performing loans (value that can't be recovered from fixing and reselling the taxi) are also sufficient in our view.

Complementary to SA Taxi is the group's risk services division, predominantly a collections business of non-performing loan books acquired at deep discounts. While the consumer environment is a tough one presently, any improvement will result in more debts being recovered which, in turn, will generate an attractive return for this business as economies of scale are improved.

Management's interests are well aligned with shareholders, evidenced by a 46% ownership stake. Transaction Capital is significantly overcapitalised and we envisage a substantial increase in profitability when more capital is deployed as management continues to search for attractive business opportunities within its core competencies. ■

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Transaction Capital

52-week range:	R6.20 - R10.75
Price/earnings ratio:	15.27
1-year total return:	+59.13%
Market capitalisation:	R5.47bn
Earnings per share:	R0.63
Dividend yield:	2.07%
Average volume over 30 days:	5 428

SOURCE: Bloomberg.com

Catching them 'cause he can

BY LAMEEZ OMARJEE

Online fraud, identity theft and cybercrime are prevalent and rising in 79% of surveyed organisations across Europe, the Middle East and Africa. Cybercrime costs the global economy more than $400bn (R5.1tr).

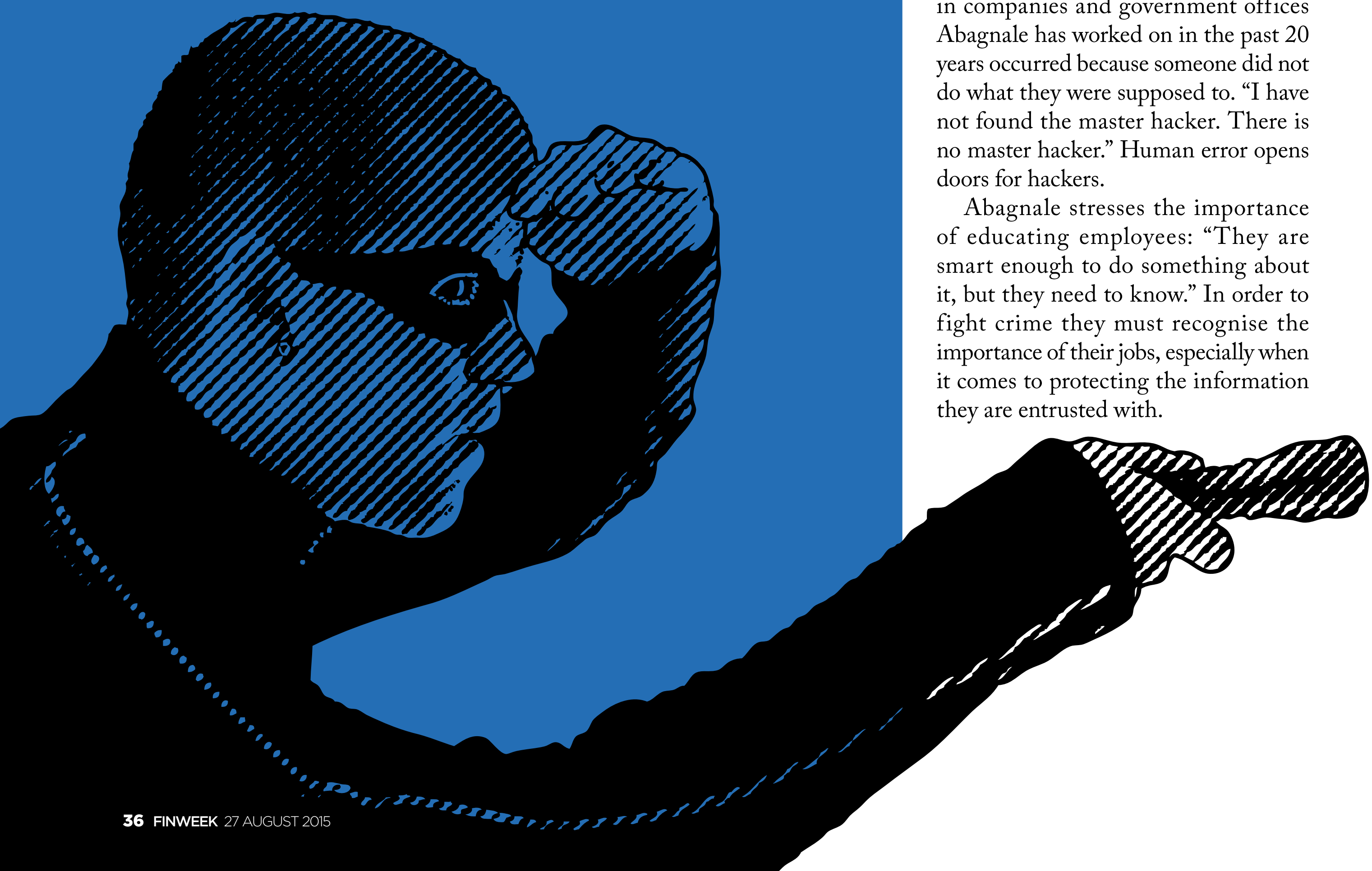
Frank Abagnale's life as a conman and fraudster was depicted in the film *Catch Me If You Can*. Leonardo DiCaprio's portrayal of Abagnale's criminal career and his ability to evade capture came to life on the big screen in a big way. But at the age of 26, Abagnale "swapped sides" and has spent close to 40 years working for the FBI as a consultant to prevent fraudulent crimes.

As an international expert on fraud, identity theft and security, he helps protect organisations against fraudsters and cybercriminals. Speaking at the Experian Insight Conference on 4 August at The Maslow Hotel in Sandton, Abagnale explained: "These criminals are not looking for a challenge, but rather an opportunity to attack the weakest link."

COMBATING CYBERCRIME

Over the years, Abagnale has seen crime evolve with the introduction of cyber technology – crimes today are 5 000 times easier to commit than they were 50 years ago. Every security breach in companies and government offices Abagnale has worked on in the past 20 years occurred because someone did not do what they were supposed to. "I have not found the master hacker. There is no master hacker." Human error opens doors for hackers.

Abagnale stresses the importance of educating employees: "They are smart enough to do something about it, but they need to know." In order to fight crime they must recognise the importance of their jobs, especially when it comes to protecting the information they are entrusted with.



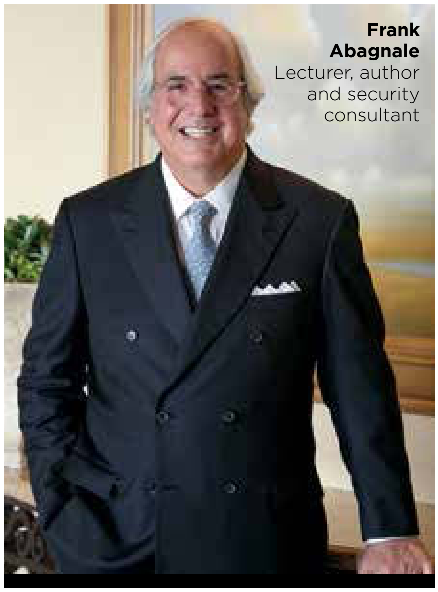
In this vein, Abagnale works with Experian to develop solutions and educate corporate customers and employees about fraud prevention.

STAYING A STEP AHEAD

One of the solutions developed by Abagnale and Experian is 41st Parameter – device authentication technology that protects customers transacting online or electronically.

The software uses over 100 parameters to identify individuals – well above the 40 initially developed 20 years ago. Parameters verify users by having them confirm details such as their name, identity number or address. The 41st Parameter solution also provides the intelligence to identify and validate any device interacting online – whether laptop, tablet or mobile device – and detects malware that may intercept transactions.

"[41st Parameter's] overt fraud detection reduces friction during the online consumer journey while simultaneously ensnaring the fraudster."



Frank Abagnale Lecturer, author and security consultant

Michelle Beetar Managing director at Experian South Africa

AS AN EMERGING MARKET, SOUTH AFRICA IS ONE OF THE MOST TARGETED ECONOMIES IN THE WORLD FOR INTERNET FRAUD.

HOW VULNERABLE ARE WE?

As an emerging market, South Africa is one of the most targeted economies in the world for internet fraud. Internet penetration is increasing, but consumer education on the risks of transacting online is not as rapid. Fraudsters recognise and follow the path of least resistance, says Michelle Beetar, managing director at Experian South Africa. The South African Fraud Prevention Association reports that identity theft costs South Africa almost R1bn a year. Additionally, research indicates that three in 10 respondents surveyed in 2014 had been victims of card fraud.

CYBERCRIME IN THE FUTURE

Cybercrimes may be financial now, but the danger is that in the next five to 10 years, they will escalate to terrorism and murders, says Abagnale. Already, cybercriminals use stolen money to commit crimes such as human trafficking, drug trafficking and child pornography. Technology breeds crime, he continues, but it can also be used to prevent it. "It is just a matter of doing the right thing and doing it ahead of time." ■

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ABAGNALE AND BEETAR ON PROTECTING YOURSELF:

1. BE CAREFUL WITH PERSONAL INFORMATION ON SOCIAL MEDIA

Giving away your date and place of birth on Facebook gives the fraudster a **98%** capability of stealing your identity – they read information and resell it or misuse it. Don't use "passport-style" profile pictures; facial recognition technology makes it easy for fraudsters to find you online. Pose for a picture with friends, while doing sport or have the picture taken at an angle.

2. KEEP A SHREDDER

Useful for discarding of any documents containing personal details. Additionally, never save passwords on electronic devices.

3. SUBSCRIBE TO A CREDIT MONITORING SERVICE

This allows you to check your data as often as you want. If you identify a breach, you can report it to authorities. South Africans can view their credit reports, once a year, for free. You can also make use of an "alert" service, at a nominal fee. It will inform you via SMS or email if something has changed on your credit record; you'll immediately be aware of someone opening an account or transacting in your name.

4. DON'T WRITE CHEQUES

Cheques include personal details: name, address, phone number and bank details. If a shop clerk obtains your identity number in conjunction with these, you are at risk of identity theft.

5. PROTECT YOUR PC

Equip your computers with firewalls and protect them with updated spyware or malware security. The cost is worth it relative to the cost of having your information stolen. Never click on hyperlinks and always type out your bank or financial institution's full web address or email. ■

Gallo Images/iStock

The **portfolio** balancing act

BY SCHALK LOUW
Portfolio manager at PSG Wealth

With summer approaching, I recently decided to dust off my bicycle and regain my former fitness levels. My body, however, made it clear that age moves faster than my bicycle can move up Suikerbossie, so once I got home, I ran the deepest Deep Heat bath possible. Upon getting in with heavy legs, I discovered that the water level had risen enough to cause the biggest tsunami Cape Town has ever seen if I dared to sit down. I got out, pulled the plug and waited anxiously for the water level to drop, only to realise that my belly protruded from the water once I finally got to lie back and relax. So yet again, I opened the taps and realised that I had just found the best way to explain the rebalancing of investment portfolios.

The primary objective of rebalancing your portfolio is to reduce risk through targeted asset allocation, and not necessarily to increase your returns. Various asset classes move in different ways (much the same way as my bathwater), which means that asset allocations within a portfolio automatically change over time as each class moves individually. This encouraged me to determine the best way to rebalance portfolios, as rebalancing doesn't come cheap.

Why? First of all, any sale in your portfolio will trigger a tax implication (short-term trading will trigger income tax, while long-term trading will trigger capital gains tax). Secondly, there will always be transaction costs involved, whether you are buying or selling.

> YOU SHOULD **GUARD AGAINST** SWITCHING BETWEEN DIFFERENT ASSET CLASSES TOO OFTEN.

THREE WAYS TO BALANCE YOUR PORTFOLIO

Time method

Based on time, you will rebalance your portfolio at a predetermined time. Let's suggest that your initial investment comprised a 60% allocation to local shares and 40% to local bonds. Should you choose this method, you may decide to restore your intial 60/40 allocation on a monthly, quarterly or annual basis.

Threshold method

The threshold method provides an investor with a bit more freedom as it often means you have to rebalance less frequently. By using this method, you will only rebalance once your allocation exceeds a set threshold. By using the previous example and applying a 10% threshold, you will only restore your portfolio to the initial 60/40 allocation if your weight in shares grows to more than 70%.

Combination

Alternatively, investors may apply a combination of these methods by monitoring weights at a predetermined time (monthly, quarterly or annually), but only rebalancing if the set threshold is exceeded.

In researching these methods, I tried to determine whether regular rebalancing actually benefits your investment. In short, not really (see table).

By running data for the past 20 years, we found that if you had compiled a portfolio consisting of 60% shares and 40% bonds and made no changes since, your annual returns, excluding costs, would amount to 15.7% with an annual volatility ratio of 11.7%. Had you rebalanced this portfolio on a monthly basis to restore your intial 60/40 ratio, your returns would have dropped to 14.9% (excluding all rebalancing costs and taxes), with a somewhat higher volatility ratio of 12% a year. Applying quarterly and annual rebalancing didn't make much of a difference to these totals, nor did the combined time and threshold level (10%) method, which left us with returns (after costs and taxes) very close to those yielded by the passive approach.

My message to you this week is that although asset allocation remains extremely important in the management of your portfolio within your risk profile, you should guard against switching between different asset classes too often. Make sure that this will add true value to your portfolio so that you don't have to keep emptying and filling up your bathtub to find the perfect water level. ■

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20-YEAR RETURNS/RISK BY APPLYING DIFFERENT REBALANCING METHODS

REBALANCING	NONE	MONTHLY	QUARTERLY	ANNUALLY
None	15.71%			
Volatility	11.67%			
Time method		14.86%	15.69%	15.81%
Volatility		12.01%	11.80%	11.68%
Time/Threshold method		16.54%	16.67%	16.07%
Volatility		11.78%	12%	11.60%

SOURCES: PSG Old Oak, INET BFA

Market access a lifeline for **small-scale farmers**

BY ANDILE NTINGI

Many small-scale farmers dream of turning their operations into profitable businesses. However, access to markets remains a big hurdle. Drawing from her childhood experience, one agricultural commodities trader developed a system that could change things for struggling farmers.

Jim Rogers, the man who accumulated vast fortunes by making daring investment bets alongside his one-time friend and legendary investor George Soros, is evangelical in preaching that the next generation of billionaires will emerge from agriculture. Rogers encourages anyone who cares to listen to learn to drive a tractor and profit from the world's insatiable appetite for food. However, Ezkiel Skhosana (right), a Mpumalanga-based mixed vegetables farmer (and skilled tractor driver) has yet to hit the agricultural jackpot predicted by Rogers.

"I am good at producing vegetables, but I am struggling to get access to markets. I need help with finding buyers," admits Skhosana.

His inability to find reliable, long-term buyers in the fresh produce market has led to Skhosana giving away four of the seven hectares of land he inherited from his late father to neighbours.

In 2012, the department of agriculture, forestry and fisheries released figures that showed a total of 3.15m tons of fresh fruit and vegetables – valued at R10.8bn – were sold at 19 major fresh produce markets in South Africa.

The Johannesburg market – the largest by far – accounts for roughly 41% of sales, followed by Tshwane (18.8%), Cape Town (9.7%) and Durban (9.3%). The remaining 21.2% is split between 15 markets.

According to Prudence Ngomane, an agricultural commodities trader, Skhosana's predicament is one of many in which small-scale farmers can't find markets for their fresh produce. An estimated 1.4m black farmers have access to roughly 14m hectares of farmland, but they compete for market access with 36 000 large-scale farmers that control anything between 75m and 86m hectares of prime farmland in South Africa.

Ngomane's company, Bewalt Global, was set up in 2013 to unlock hard-to-penetrate supply chains of the fresh produce markets for small-scale farmers that face marketing and sales challenges. Not only do they get their feet in the door, but also receive fair prices for their hard toil.

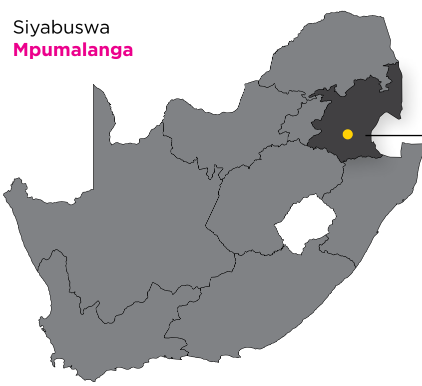
"The farmer will provide a list of fresh produce, price and quantity to Bewalt. We then market this produce and when we find an interested buyer, a sales agreement is signed.

"The buyer then makes a payment before picking up the produce. This ensures that the farmer is protected from fraud and paid on time while the agreement protects the buyer – Bewalt will be responsible should the produce not be available," explains Ngomane.

Bewalt does not charge the farmers for its services, but adds a mark-up or commission to the selling price to recover costs and make a profit. Negotiating a fair price for a farmer is a hurdle, but Bewalt also assists them in negotiating corporate red tape and obtaining paperwork associated with supplying major food retailers. Documentation required may include health inspection certificates, paperwork proving that the farmer is supplying a South African product, grading certificates and proof of farm ownership.

Finweek caught up with Ngomane at Skhosana's farm in Siyabuswa, Mpumalanga, where she was visiting the farmer to assess his readiness to supply hard-to-please customers – mainly exporters and supermarkets. Skhosana's lack of commercial experience has already cost him dearly and he believes Bewalt will help him negotiate tricky contractual curveballs thrown at him by sophisticated food buyers.

"Last year, I lost over 10 000 heads of cabbage after the department of education in Mpumalanga reneged on



a verbal agreement for me to supply cabbages to primary schools in my area for a school feeding scheme," reveals Skhosana.

He was forced to sell his cabbages (which had started to rot) at big discounts to cattle farmers on neighbouring farms.

Setbacks suffered by the likes of Skhosana and many more unknown farmers are all too familiar to Ngomane. Her family owned farms and she witnessed her grandfather, who was a vegetable and sugar cane farmer, being underpaid by buyers for his produce due to his lack of commercial and negotiating skills. "I realised then that a lot of farmers are good with producing, but not very good at marketing and selling. They will often get too low a price for their hard work.

"This motivated me to assist small-scale farmers in the area of Nkomazi (in Mpumalanga) and find fair prices for their produce. I started researching the industry in 2013 and put together a marketing plan," says Ngomane.

Currently, her company has mandates from five co-operatives and 25 farmers across Mpumalanga, Gauteng, Limpopo and the Eastern Cape.

Ngomane dreams big and wants to accelerate Bewalt's international expansion in the hope of one day entering the Brics countries, which have a combined market worth of $17tr.

"Global food demand is high and the list of countries that require fresh produce is endless. The main focus for Bewalt will be Brics and African countries including, but not limited to, Botswana, Namibia, Ghana, Senegal and Zambia," she says. "Locally there are a lot of small companies supplying, but the biggest buyers of commodities are supermarkets and independent exporters."

BEWALT GLOBAL UNLOCKS HARD-TO-PENETRATE SUPPLY CHAINS OF THE FRESH PRODUCE MARKETS FOR SMALL-SCALE FARMERS.

The South African government is putting pressure on food retailers to accommodate small-scale farmers in their supply chains through implementing supplier development programmes, as stipulated by the revised BEE codes that came into effect in early May.

Last month, the Eastern Cape government and Boxer Superstores agreed to work together to develop small-scale farmers to supply fresh produce to all 37 Boxer stores in the province. In the short term, the deal will cover maize, cabbage, spinach, tomatoes, pineapple and citrus fruit, but in the long term Boxer may consider sourcing red meat, poultry, eggs, milk and other fruit.

Boxer Superstores is not the only retailer that has made a commitment to source fresh produce from small-scale farmers to turn them into successful commercial farmers.

In 2012, Massmart set up a R200m local supplier development fund as a precondition for the approval by the Competitions Appeal Court of the then opposed $2.4bn merger between the local retailer and US retail giant Walmart. The government and labour unions opposed the merger, fearing that it would lead to job losses, an increase in imports and the decimation of the local manufacturing sector. ■

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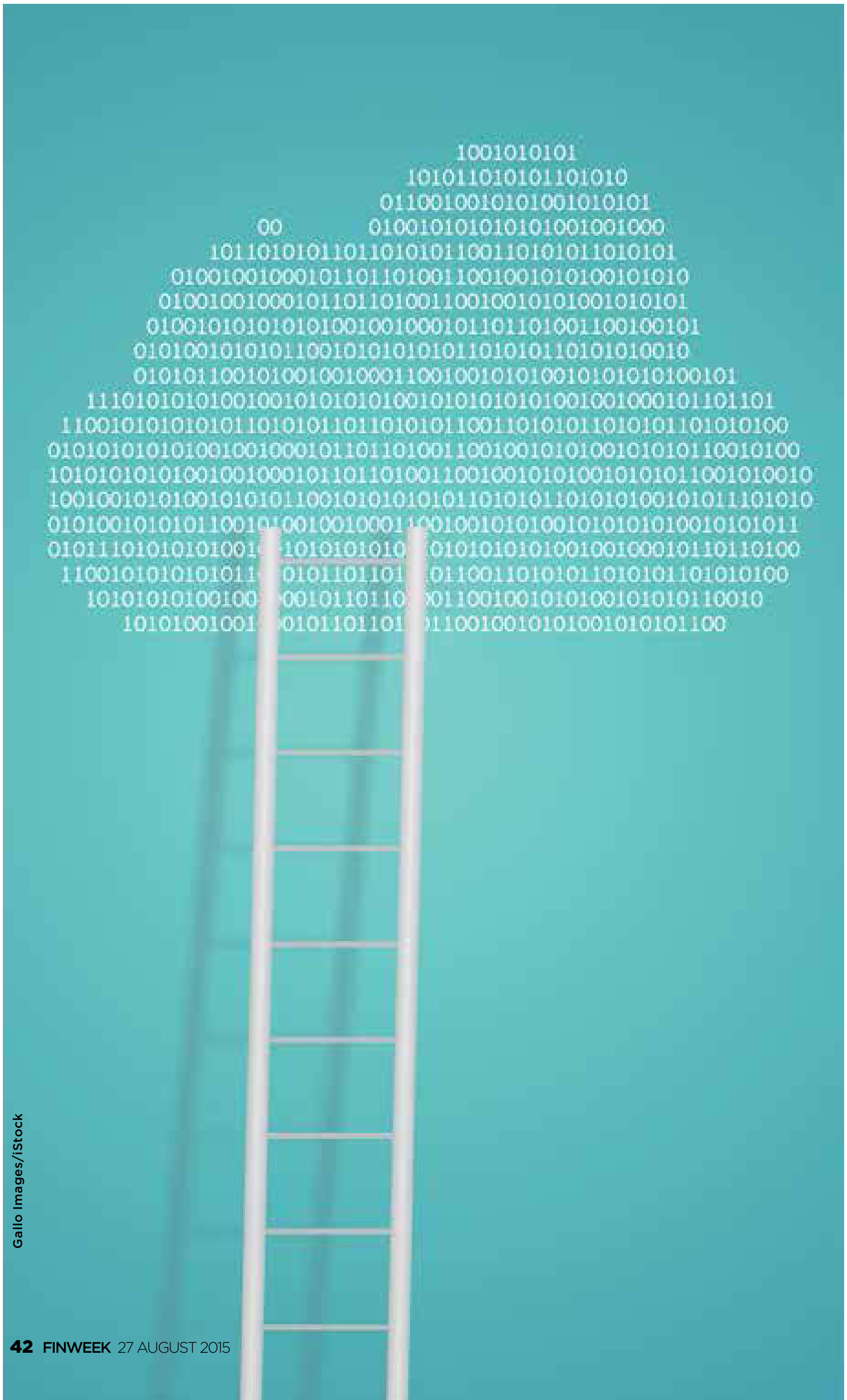
SA's GreatSoft has its head in the cloud

BY GUGU LOURIE

Bruce Morgan, CEO of award-winning cloud-based solutions provider GreatSoft, recently spoke to *Finweek*. He revealed GreatSoft's plans for the future and shared his drive for making a mark in the world "without any arrogance".



Gallo Images/iStock

GreatSoft is the first company in Africa to provide fully integrated cloud-based practice management software solutions to accounting practices and firms. The software is aimed at minimising time needed for administrative tasks in order to maximise the time available for billable services, according to the company's website.

The software integrates and streamlines operations across multiple offices, currencies and jurisdictions and can be accessed through the public cloud or installed on a client's private server. Clients that have installed the software on their servers include Deloitte, EY, Grant Thornton, KPMG, Mazars and Moore Stephens.

Morgan says he didn't start the company from scratch, but instead bought it from his previous employer – a listed company. He acquired a small division that was distributing software from Australia. In 2000 he divorced himself from the business by building a new product that was rebranded into GreatSoft.

The real game changer for GreatSoft came as a result of an online MBA Morgan started via a Netherlands Business School, he says. During his studies, he did a lot of reading and research, which helped him understand the business of Facebook and LinkedIn – applications that were both built on the cloud. He saw a need for a cloud-based solution for accounting and auditing firms because most companies were still offering software for the desktop.

Although Morgan didn't complete the MBA, the lessons he learnt helped him double the size of GreatSoft. "The shift came when we moved everything to the cloud. It was a major innovation for us – most of our competitors still sit with desktop applications," he explains.

GreatSoft has grown its footprint in 19 African countries, has an estimated 40 000 daily users and more than 90 clients that use its public cloud solution. Morgan says this segment is growing as smaller firms, which prefer not to invest in expensive storage technology such as servers, sign up.

CONTINUED INNOVATION

At the time of the interview, Morgan was on his way back to Johannesburg from Silicon Valley after attending the world-renowned Endeavour Entrepreneur Experience. GreatSoft was chosen as the winner of the First National Bank (FNB) Business Innovation Award and as the recipient of this accolade, Morgan became a member of the Endeavour Entrepreneurs.

By being inducted, Morgan has become part of a worldwide network that provides entrepreneurs with customised services, including business mentors and volunteers from Fortune 500 consulting firms. The list of South African Endeavor Entrepreneurs includes Adrian Gore of Discovery, Vinny Lingham – who sold his virtual gift card service, Gyft, for $52m – and Taste Holdings' Carlo Gonzaga.

Morgan believes GreatSoft was chosen by FNB for its innovation and its potential for growth and job creation.

He explains how the company's 12 developers get two days a month to work on something that falls outside their normal field: "If they normally develop tax systems, they can develop a mobile app; we try to stimulate creative juices." This process has produced solutions that have been beneficial to clients.

GreatSoft's internship programme, which has been running for 10 years, focuses on creating jobs for young graduates – typically unemployed black graduates with one or two degrees.

MORE ABOUT GREATSOFT'S CEO, BRUCE MORGAN.

ON HIS TECH:
I am a smartphone freak – today, my device of choice is a Nokia Windows Lumia, but I also have a Samsung S6 and S5. We're developing a mobile app for accountants and auditors – most of them are younger, tech savvy and use smart devices.

ON CREATIVE THINKING:
We don't have a blame game. I encourage people to rather make mistakes – that way we learn and can develop solutions to specific problems. If someone generates an idea, we don't stop them; we value innovation.

ON THE GREATSOFT TEAM'S MUST-READ:
Tipping Point: How Little Things Can Make a Big Difference by Malcolm Gladwell.

ON LEADERS WITH IMPACT:
There have been a few, but I love reading stuff about Steve Jobs.

ON CEOs HE ADMIRES:
Adrian Gore has built a phenomenal business in the Discovery organisation. It is not the cheapest service, but a fantastic one that offers additional services to members. It inspired me to do something similar with GreatSoft so we created GreatSoft Assist, an ancillary business that provides similar services to our clients.

GREATSOFT IS THE FIRST COMPANY IN AFRICA TO PROVIDE A **CLOUD-BASED SOLUTION** FOR PROFESSIONAL SERVICES.

GOING GLOBAL

According to Morgan, "The business we built is now in a position to grow, not only locally but on an international level. My goal is to make sure that it happens."

With the help of a very competent team in South Africa, Morgan is in the process of building global partnerships as far afield as Australia, the UK and even the US.

"I am busy tying up an agreement in Australia and should wrap up an agreement in the UK within the next two months," he reveals.

There seems to be a lot in the pipeline for GreatSoft: "We just bought a document management business and are in the process of buying a payroll business," says Morgan. This will assist the company in becoming a serious player internationally and not just in Africa.

Asked how GreatSoft will remain relevant locally while at the same time seeking to globalise, Morgan reiterates: "The DNA of this company is fostering innovation."

GreatSofts's ongoing successful performance typifies the growth of new technology firms in Johannesburg that are keen to shake up the technology industry in South Africa and beyond. "GreatSoft is at a tipping point to really accelerate our growth and go forward," concludes Morgan. ■

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Directors' Dealings

Company	Director	Transaction Date	Transaction Type	Volume	Price (c)	Value (R)	Date Modified
BSI STEEL	C Parry	7 August	Sell	49,000	49	24,010	12 August
DIPULA A	NS Gumede	6 August	Sell	303,000	1035	3,136,050	13 August
DIPULA A	NS Gumede	7 August	Sell	1,900	1103	20,957	13 August
ESOR	B Krone	11 August	Sell	560,250	30	168,075	13 August
ESOR	WC Van Zyl	11 August	Purchase	560,250	30	168,075	13 August
FAMBRANDS	DP Hele	4 August	Sell	20,000	12800	2,560,000	7 August
FORTRESSA	C Hallowes	31 July	Purchase	13,000	1600	208,000	5 August
HULAMIN	RG Jacob	7 August	Purchase	25,000	465	116,250	11 August
LEWIS	N Jansen	7 August	Purchase	4,480	6639	297,427	11 August
LODESTONE	G Trope	7 August	Purchase	9,496	690	65,522	12 August
LODESTONE	G Trope	7 August	Purchase	2,823	700	19,761	12 August
LODESTONE	G Trope	7 August	Purchase	30	710	213	12 August
LODESTONE	G Trope	7 August	Purchase	151	739	1,115	12 August
NEDBANK	RK Morathi	7 August	Sell	16,000	25156	4,024,960	11 August
PICK N PAY	JG Ackerman	11 August	Exercise Options	55,014	3055	1,680,677	11 August
PICK N PAY	JG Ackerman	11 August	Sell	55,014	5871	3,229,871	11 August
PICK N PAY	SD Ackerman	11 August	Exercise Options	147,215	2846	4,189,738	11 August
PICK N PAY	SD Ackerman	11 August	Sell	147,215	5871	8,642,992	11 August
PIKWIK	JG Ackerman	11 August	Sell	36,958	2668	986,039	11 August
PIKWIK	JG Ackerman	11 August	Exercise Options	501	2668	13,366	11 August
PIKWIK	SD Ackerman	11 August	Sell	92,585	2668	2,470,167	11 August
PIKWIK	SD Ackerman	11 August	Purchase	170	2668	4,535	11 August
SAPPI	AV Thiel	12 August	Purchase	11,000	4119	453,090	13 August
SENTULA	J Badenhorst	6 July	Purchase	4,514,269	18	812,568	11 August
SPAR	PK Hughes	3 August	Sell	41,600	19907	8,281,312	7 August
SPAR	PK Hughes	4 August	Sell	33,100	20000	6,620,000	7 August
SPAR	PK Hughes	29 July	Exercise Options	1,500	2900	43,500	5 August
SPAR	PK Hughes	29 July	Exercise Options	110,000	3036	3,339,600	5 August
TRUSTCO	R McDougall	5 August	Purchase	12,270	405	49,693	7 August
VODACOM	V Jarana	7 August	Sell	3,889	14590	567,405	11 August
VODACOM	M Makanjee	7 August	Sell	2,909	14590	424,423	11 August

Dividend ranking

SHARE	FORECAST DPS (c)	FORECAST DY (%)	SHARE	FORECAST DPS (c)	FORECAST DY (%)
EQSTRA	35	12.0	EMIRA	134	7.9
REBOSIS	109	9.7	OCTODEC	192	7.8
LEWIS	528	8.8	ASSORE	650	7.3
VUKILE	148	8.1	AVENG	35	7.0
ACCPROP	54	8.0	ANGLO	1052	7.0

TEST YOUR **KNOWLEDGE**

It's time for another quiz! Let's get those neurons firing with some general knowledge and current affairs questions! Complete the quiz on finweek.com to find the answers.

finweek

1 Who is Hlaudi Motsoeneng?

2 **True or false?**
Minnie Dlamini is among the celebrities featured in the recent e-toll ads.

3 Which local cellular network provider recently launched voice-over WiFi calling?
- Cell C
- Vodacom
- Orange

4 **True or false?**
Steinhoff International Holdings owns retailer Pepkor.

5 Recently, community members protested at a primary school for days, demanding a new principal be appointed. In which town did this take place?

6 In which country is the energy company Petrobras headquartered?

7 Who is Nomgcobo Jiba?
- The vice-president of Botswana
- CEO of small miner Legacy Coal, as featured in last week's edition
- The deputy director of public prosecutions

8 A man was recently escorted out of a gym for wearing a pro-Palestine T-shirt. Name the gym involved.

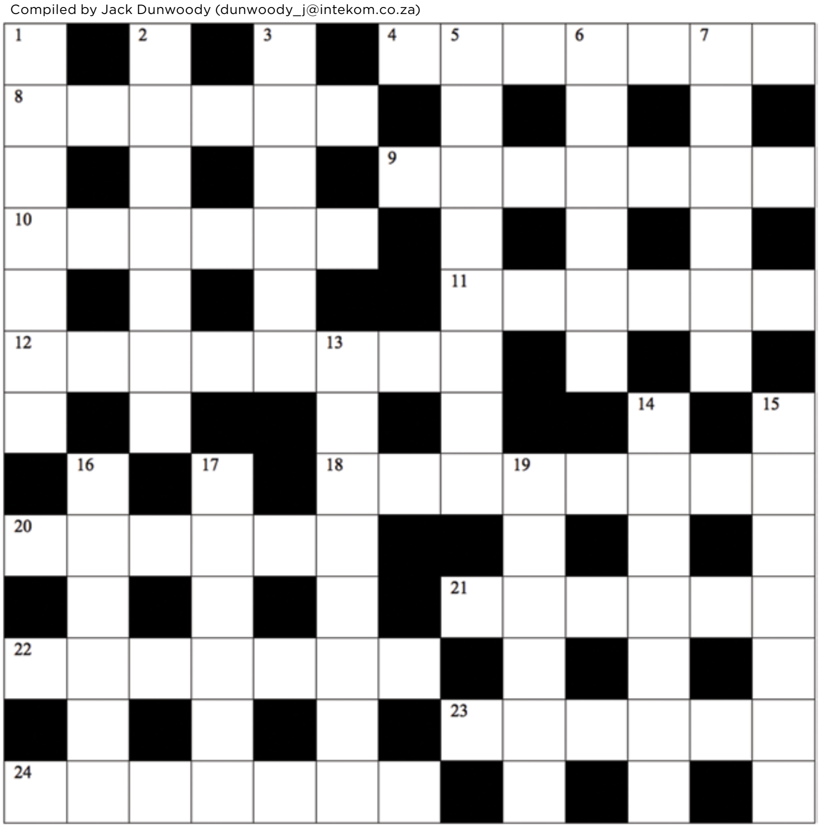
9 **True or false?**
The capital of Thailand is Manila.

10 Who is the editor of the *City Press* newspaper?

CRYPTIC CROSSWORD

NO 596 JD

Compiled by Jack Dunwoody (dunwoody_j@intekom.co.za)



ACROSS

4 Food starts at 3:00 – quite a spread! (7)
8 Continuing away from old city terminal (6)
9 Old article on wood, as reported (7)
10 Sort of suits the sport (6)
11 Sort of shopping one does when fishing for information (6)
12 Sort of commitment pupils wouldn't want (4-4)
18 Fussy music (8)
20 I object about investigators having nothing to pin on doctor (6)
21 Left in exceptionally good state regarding long composition (6)
22 Swing around river in North Carolina (7)
23 Sovereign power of a 50-year old reign (1,6,6)
24 The old man's gone nuts! (7)

DOWN

1 Last quaint sleep sack (7)
2 Overdo it recruiting 500 men for a scrap (7)
3 Ask for Scotch (6)
5 Recovered part in cash (8)
6 Out of date jam the French find nourishing (6)
7 Sounds like faithful worker's an absentee (6)
13 Necessary to apply on the day (8)
14 Sort of art best displayed under strobe lighting (5,2)
15 Sovereign power of a 50-year old reign (1,6,6)
16 Particular dock (6)
17 Informed in twos – that is unusual (4,2)
19 High school department leads in intellectual insights (6)

Solution to Crossword NO 595 JD

ACROSS: 1 Adequate; 5 Asia; 9 Clear; 10 Know-all; 11 Omit; 12 Mantelet; 13 Martello tower; 18 Approval; 19 Even; 20 I ask you; 21 Elder; 22 Go to; 23 Decrypts
DOWN: 2 Dilemma; 3 Quartet; 4 Take a pleasure; 6 Swallow; 7 All-star; 8 Tomtit; 13 Meaning; 14 Reposit; 15 Eponym; 16 Overlay; 17 Everest

ON MARGIN

BARKING MAD

A dog walks into a telegraph office and asks to send the following message: "Woof. Stop. Woof. Stop. Woof. Stop. Woof. Stop. Woof. Stop."

The telegraph operator says: "It's R10 for six words, so you can add another 'woof' on there."

The dog replies: "But that would make no sense at all."

SHINY NEW TOY

John runs into farmer Bob and they start talking about Bob's new tractor.
John asks: "So what colour is it?"

Bob answers: "You know how the sun looks when it hits the horizon in the late summer evenings when everything seems peaceful?"

"Yeah?"

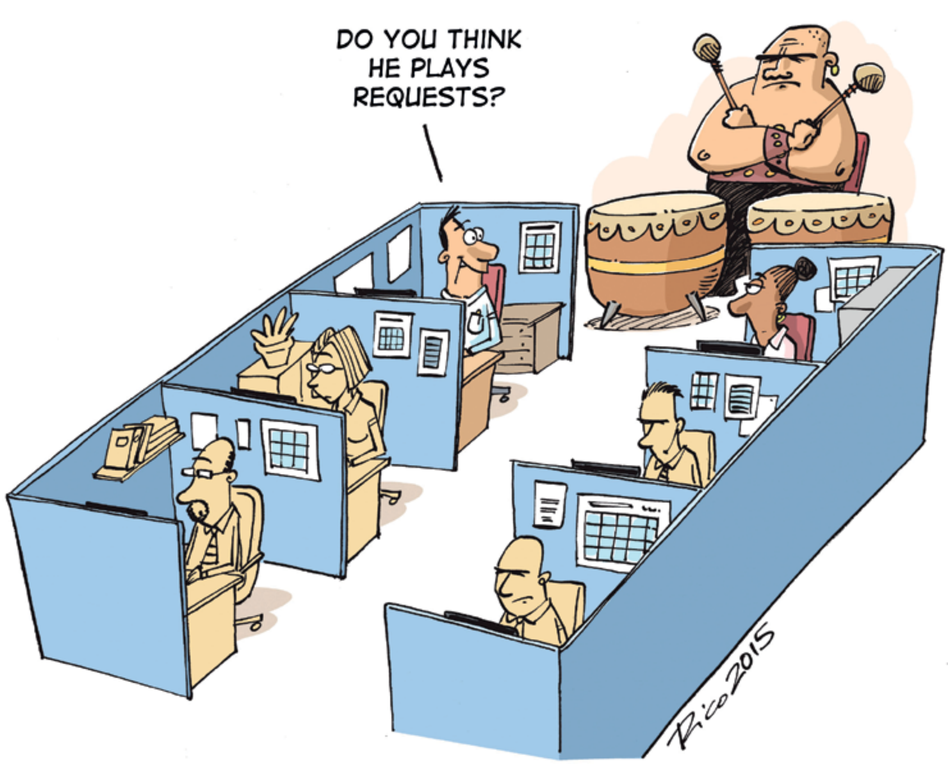
Bob says: "Exactly like that, 'cept it's green."

My friend thinks he is smart. He told me an onion is the only food that makes you cry, so I threw a coconut at his face.

Q: Why do scuba divers fall backwards out of the boat?
A: Because if they fell forward, they would still be in the boat.

Signs that you are living in the 21st century:

- You haven't played solitaire with a real deck of cards in years.
- You have a list of 20 phone numbers to reach five people.
- When paying a cashier, you only know how to respond to "credit or debit" – what the hell is "cash"?



VERBATIM

On 18 August, Nkandla was again on Parliament's agenda, albeit briefly. As usual, tweeters did not hold back on the sarcasm:

Mabine Seabe II @Mabine_Seabe
#Nkandla The EFF walks out ... Are they going to come back for the debate on the economy?

Lester Kiewit @lesterkk
"The Firepool has a shallow end, and a deep end. The shallow end for small fires, the deep end for big fires." – Corné Mulder #Nkandla

Mukks @NsikaXM
@lesterkk Corné Mulder must've thought he's opening a show for @Trevor Noah. #Nkandla

Phumzile Van Damme @zilevandamme
Judging by the chuckles from the ANC benches, Minister Nhleko's cheap firepool spin didn't even work on his own party members. #Nkandla

Gavin Davis @gavdavis
ANC's @mmkubayi says heads must roll because #Nkandla upgrades were not "befitting of a President". What a shame...

mulugisi masera @MulugisiM
Thuli Madonsela: You're told to buy a bicycle instead you buy a Mercedes-Benz then complain about the faulty tyres #Nkandla that sums it up

Nkandla Homestead @NkandlaHome
CATERING: Please pour all 2 000 bottles of champagne into firepool. #Nkandla report has been adopted, which means there will be plenty more.

K.O.M @KOM_PLICaTED
Pres. Zuma's ringtone must be "Shaggy – It wasn't me" #Nkandla

"I make $400m a year, so what difference does it make? What I want to do is make the country great."
– Donald Trump says he's prepared to spend $1bn on his campaign for the US election.

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